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U.S.-CHINA ECONOMIC AND SECURITY REVIEW COMMISSION

HEARING ON

CHINA'S MILITARY MODERNIZATION AND

CROSS-STRAIT BALANCE

Thursday, September 15, 2005

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P R O C E E D I N G S

CHAIRMAN D'AMATO: The hearing will come to order. Today we're going to have a hearing on China's Military Modernization and Cross-Strait Balance. Before we begin the bulk of our testimony, we're very fortunate this morning to have with us a real expert on China, Representative Rob Simmons, who represents the 2nd Congressional District of Connecticut. I'm very pleased to welcome him. I think Commissioner Bryen has some additional remarks about the Congressman.

CHAIRMAN CO-CHAIR BRYEN: Good morning. Good morning, Congressman.

MR. SIMMONS: Good morning. Thank you.

CHAIRMAN CO-CHAIR BRYEN: We certainly welcome you here today. This is a committee with many chairpersons and it's sort of like rabbits, you know, they multiply.

We're very happy to have you here today to address the Commission. For those of you who are with us today, Congressman Simmons has spent over 40 years in public service. In November 2004, he was

reelected to a third congressional term for the 2nd district of Connecticut. He is the highest ranking retired member of the military serving in the House of Representatives--I'm happy to say that--and a winner of two Bronze Stars.

Prior to serving as a member of the House of Representatives, Rob Simmons had a distinguished career in the intelligence community, including an operations officer with the CIA, staff director of the Senate Intelligence Committee, and 37 years of active and reserve service in the U.S. Army Reserves as a military intelligence officer, reaching the rank of colonel in 2003.

He's a Task Commander of the 434th Military Intelligence Detachment, Strategic. He has been an associate fellow at Berkeley College at Yale where he teaches courses called "Congress and the U.S. Intelligence Community," which he knows a lot about, and the "Politics of Intelligence," which I suspect he knows quite a lot about.

Congressman Simmons serves on the House Armed Services Committee, Transportation and

Homeland Security committees. Congressman Simmons is currently the Vice Chairman of the Projection Forces Subcommittee, which covers naval issues for the House Armed Services Committee, and he's Chairman of the Homeland Security Intelligence Information Sharing and Terrorism Risk Assessment Subcommittee. That's an awful lot to do.

And on top of that, he's on leave from the Veterans Committee and is past Chairman of the Veterans Health Subcommittee. He's also a member of the newly formed China Congressional Caucus, so he's obviously superbly qualified to be here today. We're happy to welcome you. We look forward to your statement.

CHAIRMAN D'AMATO: You may proceed.

MR. SIMMONS: Thank you, Mr. Chairman, thank you, commissioners, for the generous introduction. I do not consider myself an expert but an interested person. There are probably many more experts at the podium and behind me at the witness table this morning. But I appreciate that introduction, and I appreciate the opportunity to



discuss these important issues involving the security of the Taiwan Straits and China's defense modernization.

I have with me today an article that I wrote and was published in late August in the Hartford Current, called "Ignoring China's Growing Submarine Force." I co-authored this with retired CNO Carlisle Trost. I'd ask that this be inserted into the record and that my full statement be inserted into the record, and then I will try to summarize my comments.

CHAIRMAN D'AMATO: They will, Congressman.

MR. SIMMONS: Thank you very much. Briefly and simply, the military balance across the Taiwan Strait is steadily moving away from the Republic of China on Taiwan and towards the People's Republic of China. The People's Liberation Army is executing simultaneously a broad defense modernization program and an aggressive defense build-up. The build-up and modernization efforts are aimed not only at Taiwan's defense forces, but at the United States Armed Forces, and especially the United States Navy.

We have followed these developments closely in the House Armed Services Committee under the capable leadership of our Chairman Duncan Hunter of California.

China is in the middle of a massive build-up of modern attack submarines and fourth generation fighter aircraft as part of a new cruise missile strategy against regional naval forces.

In July, the Department of Defense reported to Congress that the PRC has 55 attack submarines, slightly more than the U.S. Navy today. Although many of these attack submarines are dated, the fleet is modernizing rapidly. China is buying submarines literally by the dozen.

There are 25 submarines under contract today and about 16 are currently under construction now. Half of them are state-of-the-art Russian Kilos currently under construction in three separate Russian shipyards.

China itself is building four different types of submarines, three fast attack classes and one ballistic missile "boomer" class that will be

capable of hitting cities in the continental United States from the safety of their own coast and littorals.

By comparison, the U.S. Navy today buys just one attack submarine a year. That rate would leave the Navy eventually with just 33 boats. So current trends give China at least a two-to-one numerical advantage over the U.S. submarine fleet by the year 2025, perhaps sooner.

Some argue that China's submarines are not considered modern by Western standards, but even older boats are incredibly useful in a shooting war because they can serve as bait to take U.S. ships out of hiding. And the older submarines would also be useful if China fired the first shot.

Also, higher force levels have a quality of their own. I use the example that a heavyweight boxer is always going to defeat a lightweight boxer in the ring. A heavyweight boxer is going to have difficulty with two lightweights, but if it's a heavyweight boxer against a middleweight and two

lightweights, the heavyweight boxer is probably going to lose. So numbers count. Numbers count.

China's new submarines and surface ships carry some of the most deadly and sophisticated weapons in the world market today. Fired in mass, a traditional Russian and Chinese tactic, they could overpower the defenses of our surface ships. They've already purchased from Russia the Klub anti-ship cruise missile, specifically designed to defeat U.S. shipboard defenses.

The Office of Naval Intelligence says that the Klub system employs a rocket-propelled terminal sprint vehicle that travels at Mach 3 in the last ten miles of flight to the target as it performs high-g maneuvers to fool the ship defenses. The missile's range far exceeds the defensive perimeter of a U.S. aircraft carrier, which means that Chinese submarines could fire lethal volleys at a U.S. flattop from multiple directions well before they were detected by Navy sensors, and this issue is covered in this open source publication from the Office of Naval Intelligence titled "Worldwide

Maritime Challenges," and I would request that this be placed in the record as well.

CHAIRMAN D'AMATO: And it will, Congressman.

MR. SIMMONS: China deploys on its destroyers Sunburn supersonic anti-ship cruise missiles that it obtained from Russia. Specifically designed to kill U.S. carriers, this missile can also reach Mach 3 with a potential to perform high-g defensive maneuvers.

The Shkval rocket-propelled torpedo is another Chinese weapon that threatens our surface fleet. It can reach underwater speeds of 230 kilometers an hour. Let me repeat. 230 kilometers an hour--that's not a misprint--by producing an envelope of super-cavitating bubbles from its nose and skin that coats the entire weapon surface in a thin layer of gas, which allows it to operate at such a high speed.

The PLA is putting anti-ship cruise missiles on its older aircraft and naval platforms and could also use shore-based cruise missiles and

even ballistic missiles to attack our surface ships. I go into this level of detail because we all need to understand that China is tailoring its forces for a concentration, not just with the Republic of China on Taiwan or other Asian sovereign nations, but with the U.S. Navy, and that threat to our ships is very real today.

In the past, we comforted ourselves with the belief that the Chinese military could not put such precision weapons on target over the horizon because they lacked C4ISR needed to locate our warships. Those days are gone. Those days are gone. The PRC has benefitted from Russian and Western intelligence, surveillance and reconnaissance technology that will allow its forces to use these weapons accurately and reliably.

When challenged technologically, China closes the gap through low-tech solutions such as commercial fishing vessels or helicopters to target foreign warships, or illegal transfers. For example, just recently, four naturalized U.S. citizens pleaded guilty to illegally exporting to

Beijing controlled entities that are used in a wide variety of defense weapons systems including radar, smart weapons, electronic warfare and communications, and a Justice Department publication and an article on these recent arrests on these exports I brought with me to provide to the Commission for your records.

We know this has been going on for a long time. We know it's going on today. We know it will be going on into the future.

We know that the PLA has ready access to our commercial satellite products with military value and that China's military will benefit from its participation in Galileo, the European Union's GPS project. In fact, Beijing has launched dozens of satellites the PLA could use, could use, to help target U.S. platforms.

China already has the GPS technology that revolutionized U.S. forces in the early '90s. Together, these qualitative and quantitative developments would enable China to blockade Taiwan, an island of only 23 million. It could also be used

to defeat or deter U.S. intervention in the Taiwan Strait crisis.

In the long run, China's defense build-up could challenge the United States' role in the western Pacific. In fact, China is shifting its most capable naval forces to its South Sea fleet, just opposite Taiwan. From there, they are best positioned to use their long-range anti-ship cruise missiles to defend the normal U.S. approaches from the Pacific and Indian Oceans.

Some years ago, in 1996, Captain Shen Zhongchang, a strategist from the Chinese Navy Research Institute, predicted that the most powerful naval weapon in the future would be submarines. And I quote:

"After the First World War, the dominant vessel was the battleship. In the Second World War, it was the aircraft carrier. If another global war breaks out, the most powerful weapon will be the submarine."

Captain Shen knew that the proliferation of cruise missiles and rocket-propelled torpedoes make



surface combatants especially vulnerable in modern naval conflict. The United States and Taiwan must understand this reality if they are to safely deter aggression.

I'm not sure that the U.S. and Taiwan have come to grips with the growing naval threat in the western Pacific. In spite of the grave danger that it faces, the Republic of China on Taiwan may make the situation worse by failing to move forward with a much-needed special budget to fund critical defense requirements.

The U.S. Department of Defense has consistently told the government of Taiwan that its three greatest weaknesses are anti-submarine warfare, anti-missile defense and C4ISR.

In 2001, President Bush approved for sale to Taiwan eight diesel-electric submarines, 12 anti-submarine warfare aircraft, and six Patriot missile defense battery interceptors. I have written to the State Department in January of this year and asked them to notify Congress of the approval of this proposal, one of the last steps in the process. I

have received correspondence back from them, but at this point, they have not approved those sales.

President Chen Shui-bian has responsibly urged the Legislative Yuan to pass a special defense budget to pay for these critical weapon systems, but political elements in Taiwan have obstructed the special budget in their parliament.

The people of Taiwan should know two things:

First, delaying passage of the special budget and Taiwan's procurement of these weapon systems leaves Taiwan defenseless and will only encourage aggression.

Second, blocking the arms package tells the United States, correctly or not, that Taiwan's leadership is not serious about the security of its people. The American people have come to the aid of foreign countries in the name of freedom many, many times in our history, but Americans will not in good conscience support countries that are unwilling to defend themselves, that are unwilling to pay the costs of their own defense.

And these may seem like tough words for somebody who considers himself a friend of Taiwan, a friend of the Republic of China on Taiwan, but this is the way I see it.

Both the United States and Taiwan must prepare their armed forces for the worst in the Taiwan Strait. Congress can do this by ensuring that we have a Navy that is best suited for undersea warfare in the western Pacific. The Taiwan legislature can do this by preparing itself and by helping President Chen pass the special budget and acquire defensive systems, defensive systems, that the island desperately needs.

I thank the Commission for its very important work, and I thank you for listening to my remarks, and I'm pleased to answer any questions that you may have.

CHAIRMAN D'AMATO: Thank you very much, Congressman, for that very important and informative statement and for your focus on this whole issue.

I notice that you have there on the desk a book by a guy named Menzies, I think, 1421. It

bears on the question that you refer to on power projection. There is a mind-set I think among some that China's culture puts them in the center of the world, the rest of the world is barbarians, it's a land-locked power, and it doesn't project its forces around the world as a matter of course.

There is some behavior that that book talks about some 600 years ago, I think, that belies that. Would that be your impression?

MR. SIMMONS: Well, this is a very important book and I brought it to the attention of my colleagues in the Armed Services Committee on numerous occasions. 1421, the year that China discovered America, it's the story of the Chinese Treasure Fleet which was constructed and deployed in 1421 by the Emperor Zhu Di. This was a fleet of 250 Treasure Ships and 3,500 other vessels, 1,350 patrol ships, 1,350 combat vessels at guard stations or island bases, 400 warships, and another 400 freighters for a total of almost 4,000 ships, many of which were larger than the largest ships in

existence in Europe at the time and for another couple of hundred years.

The rudder of one of the Treasure Ships was larger or longer in length than Columbus' flagship, and so for those people who think that China does not have a naval history, for those people who think that it's appropriate to refer to Chinese vessels as "junks," guess what? There's a tremendous naval history. It's a history that they know, a history of which they should be duly proud, and we should be much more aware of that history if we are to understand what their view of their role in the Pacific might be now and into the future and what their capabilities should be.

And so I would encourage anybody who has an interest in Chinese military matters and especially naval matters to read this book.

CHAIRMAN D'AMATO: Thank you very much. I think there are some other commissioners who have questions as well. Congressman, I think you've taken a strong interest in the weapons sale issue between the United States and Taiwan, and I believe

you have some interest in the dynamic between the executive and the Congress in terms of reaching agreements on the packages that we were to offer to the Taiwanese.

I wonder if you could tell us a little bit more about your views on that?

MR. SIMMONS: Well, if we're referring to the weapons sales that the president approved back in 2001, I am interested in that, and I have supported that approval since it was first made. In fact, in the year 2002, I recall--it may have been the summer of 2003--I don't recall exactly--I went to Taiwan for a week to engage in discussions about that package, and what I could do to assist and coordinate at least the portion dealing with the submarine sales.

I serve as the Vice Chairman of the Navy Subcommittee on the House Armed Services Committee, and as some of you who follow the BRAC process may know, I represent what we proudly call "the submarine capital of the world," Groton-New London. We're home not only to the U.S. Navy's premier

submarine base but to Electric Boat, which is the premier designer and builder of submarines.

I've been frustrated in the slow process of bringing that project to fruition, and I've been frustrated because it seems to me so obvious that developing some of these defensive capabilities is very much in the interest of the leadership and the people of Taiwan, and I also know how long it takes to design, build, train and deploy on a capable subsurface system. You cannot just buy it like an AK-47 or a CAR-15 or even an aircraft out of the inventory.

It takes time to design and develop these systems, and there's no question in my mind that the People's Republic of China is very aggressively developing these capabilities, and it seems like the Republic of China on Taiwan and the U.S. are dragging their feet, and I'm not sure why that is.

CHAIRMAN D'AMATO: And you corresponded with the Secretary on this matter?

MR. SIMMONS: I joined half a dozen of my colleagues in January of this year to write a letter

to Condoleezza Rice congratulating her on her confirmation as Secretary of State, but also expressing concern over the Department's failure to transmit congressional notifications of these sales so that we could move forward with the project, and I tried to describe in the letter why I thought it was important.

In February, I received a response from Nancy Powell, Acting Assistant Secretary for Legislative Affairs, saying that the Department fully supports the President's decision. I would suspect they have to say that. They note that the package is under intense political debate in Taiwan. Yes, we all know that, but we do not believe notification will have any influence over the legislature, and the department will move forward on notifications at an appropriate time.

Well, I would have said an appropriate time was several years ago. Come on. Let's get moving. But I understand the State Department has its own schedule.

[Laughter.]



CHAIRMAN D'AMATO: Would it be possible to put those in the record, too?

MR. SIMMONS: I would be happy to submit these for the record of the hearing.

CHAIRMAN D'AMATO: Thank you. Thank you very much.

MR. SIMMONS: And we'll probably continue to press this issue.

CHAIRMAN D'AMATO: Thank you.

MR. SIMMONS: With the State Department.

CHAIRMAN D'AMATO: Thank you. Commissioner Wortzel has a question.

COMMISSIONER WORTZEL: Thank you very much, Congressman Simmons, for your testimony. I appreciate very much your analogy of the boxers against the heavyweight. It coincides with the way that at least since 1949, the Chinese Navy has fought the very few naval engagements it has.

MR. SIMMONS: Yes.

HEARING CO-CHAIR WORTZEL: They massed either fast attack boats or destroyers in very large numbers using cruise missiles against smaller, I

won't call them fleets, but two to three ships of opposing navies. It made it very difficult. It's like queuing theory. If you've got a revolver and you've got six bullets in there and 12 people are coming at you, you're in real trouble.

[Laughter.]

MR. SIMMONS: That's right. Better know how to throw it accurately.

COMMISSIONER WORTZEL: That's right. So it's not only Navy, but it's also, their Air Force has the same sort of overwhelming numbers of what might be older platforms, but improved with better weapon systems that they will just throw at you regardless of how good you may be against a single platform.

I'm very interested if I could or if we could draw you out on how you or the Caucus have advised or would advise our friends in the Republic of China on Taiwan on the debate they're having about whether they should move toward offensive weapon systems or strike systems versus the

defensive arms we're permitted to sell or we're authorized to sell in the Taiwan Relations Act?

MR. SIMMONS: Well, first and foremost, the Republic of China on Taiwan is a democracy, and it would be perhaps inappropriate for me to comment or characterize the activities of that democracy just as we would take a little bit umbrage if our democracy was characterized or criticized.

You know there are contending forces in the legislature that have different points of view, and I gather the fact of the referendum last year has created difficulties, and I think that the narrow margins in the legislature that are a fact of the different political parties makes it difficult to have a clear-cut majority on this issue.

We understand that. I hope to go to Taiwan in October for the 10/10 celebration which, of course, is a wonderful celebration. The anniversary of the Free China is what I would call it. And I would hope to have an opportunity to talk to people, political leaders, about this issue at that time in a friendly persuasive fashion.

With regard to offense and defense, I think the policy has always been that Taiwan will work to defend itself, that they will not allow themselves to be taken by force from any entity including the PRC, and I think that's entirely appropriate and I think our Taiwan Relations Act is designed to sustain that point of view.

But in an era of modern weapon systems, in an era of 200 mile per hour torpedoes or the equivalent, of cruise missiles that operate in extraordinary ways, you have to update those defensive systems or the sheer mass of what's happening across the straits will encourage capitulation.

And the United States will not be able to operate effectively in the region if they, in fact, don't modernize some of their defensive systems.

HEARING CO-CHAIR WORTZEL: Thank you, sir.

CHAIRMAN D'AMATO: Thank you. Commissioner Donnelly.

HEARING CO-CHAIR DONNELLY: Thank you, Mr. Chairman and thank you, Representative Simmons, for

what's been a very sophisticated presentation. I particularly appreciate and welcome the more sophisticated analysis of Taiwanese politics that can distinguish between what President Chen says and what the legislature has failed to do, and I would just remark that it's rather ironic that the KMT has turned its back on an arms sales package that it dreamed up in the first place.

MR. SIMMONS: Politics, politics, politics.

HEARING CO-CHAIR DONNELLY: Guess so. And I would like to ask a real question however. I was also very impressed by the sophistication of your operational assessment of the balance across the Strait and ask you to sort of put on your politician's hat and put yourself in the role of an American president, confronted with that blitzkrieg, if you will, or massive initial strike or strikes that the PLA, PLA Navy is increasingly able to mount and sort of play through that scenario as though you were the commander in chief, and had to respond to that, and--

MR. SIMMONS: Well, let me--

HEARING CO-CHAIR DONNELLY: --what kinds of concerns you would have under that circumstance?

MR. SIMMONS: Let me begin by saying that I hope I am never the commander in chief. I have no such ambition or desire, and it's illustrative of the challenges he faces at home and abroad. This is just one of many challenges. If I could take a sentence from 1421 just for the fun of it.

I read as follows:

"The Chinese preferred to pursue their aims by trade, influence and bribery rather than by open conflict and direct colonization."

And so the purpose of the Treasure Fleet was to explore all parts of the known world, engage in trade relationships, provide goods and materials that were superior in quality to what was being traded for, and then create what they refer to in the book "as perpetual debt to China"--quote-unquote.

My hypothesis is that that massive onslaught may or may not take place. We would hope it wouldn't. But by building up massive

capabilities, sophisticated modern capabilities, subsurface capabilities that I think already have been announced in the open literature, that have gone out and circumnavigated Guam and are able to participate effectively in the western Pacific, by doing all of these things, you create such a powerful force, that it may encourage capitulation.

That is especially true if you are engaged in extensive economic activities across the Straits, which we all know about, which we all encourage. But getting back directly to your question, if such an attack were to take place, and Taiwan not have capabilities in place for the initial defense, the action will be over before we get there. The president really won't have too much of a decision to make. That's kind of the way I see it.

And there's another important point. We war game our Navy with diesel submarines. We have none in the inventory, but we war game with those that we lease, borrow or invite from other countries, and the increasing sophistication of subsurface systems, diesel subs, armed with these

highly sophisticated new weapon systems, do place those aircraft carrier task forces at risk, and so the question would also have to be asked--the President would have to ask himself am I prepared to put a city at sea, an aircraft carrier task force with 5,000 people on board and maybe \$20 billion of resources, am I willing to put this at risk in an environment where the government of the Republic of China on Taiwan is not willing even to risk dollars to defend themselves?

CHAIRMAN D'AMATO: Thank you very much. Now, we've been informed by your aides that you have seven and a half minutes. We'll go until that seven and a half minutes is up.

MR. SIMMONS: Take ten.

CHAIRMAN D'AMATO: Commissioner Dreyer.

COMMISSIONER TEUFEL DREYER: First of all, thank you very much for your remarks, their sophistication and their nuance. I am concerned because the Taiwan Relations Act, as you know, says that the United States--it obliges the United States to provide Taiwan with such defensive arms as are



necessary to keep a balance of power in the Taiwan Strait, and obviously if Taiwan does not wish to acquire these defensive arms, that tends to vitiate the guarantee that is given in the Taiwan Relations Act.

We all understand, because legislative gridlock is not unknown here, why legislative gridlock occurs in Taiwan. Has anyone made an effort to explain to them just how deleterious this is to their position in the U.S. Congress? And there was a good deal in the Taiwan press about six weeks ago--in fact, I think I see the reporter here who wrote the story--that a deadline had been given to Taiwan saying we offered you a weapons package in April 2001, and here it is four years later, and four plus years later, nothing has been done. We may take it off the table if you can't make up your minds. Has anything like that been broached?

MR. SIMMONS: Well, in late May of this year, I joined over 30 of my colleagues in writing a letter to Chairman Lien Chan of the National Party, Kuomintang, in which I raised again my concern over

the slow rate of response and in the last paragraph stated:

Failure to pass the special budget has raised concerns in the United States about Taiwan's ability to defend itself against potential aggression. And we encourage you to affirm your party's commitment to its strong defense force and a strong U.S.-Taiwan relationship by supporting these purchases in full and without further delay.

The response that I got back was a three-page response stating that the Kuomintang has always believed in credible defense capabilities while advocating peace and stability in the Taiwan Strait. We also believe political prudence should go hand in hand with a strong deterrence.

I wondered what was meant by the word "political prudence." And that goes back to an earlier question: has there been a change of policy in Taiwan that we're not aware of? Has there been a political shift away from participating with the United States in this sale?

I don't know the answer to that question.  
But it's--

COMMISSIONER TEUFEL DREYER: I think as  
Commissioner Donnelly said, the Kuomintang appears  
to have changed its stance.

HEARING CO-CHAIR DONNELLY: Mr. Chairman.

MR. SIMMONS: Yes.

HEARING CO-CHAIR DONNELLY: Can that  
correspondence be inserted in the record as well?

CHAIRMAN D'AMATO: Yes, if we could. We'd  
love to insert that in the record, Congressman.  
Thank you.

MR. SIMMONS: So just to complete the  
thought, the question has been raised. It was  
raised in May of this year by myself and over 30  
other members of Congress. We have a letter back  
which I would place both in the record and leave it  
to you to study them carefully to see what the  
nuances are, but again if I travel to Taiwan in  
October, I would like to follow up and ask what this  
means.

COMMISSIONER TEUFEL DREYER: As far as you know, there has been no deadline posed by the United States.

MR. SIMMONS: As far as I know, there has been no deadline. As far as I'm aware. Maybe the State Department can clarify that point.

CHAIRMAN D'AMATO: Commissioner Robinson, the Vice Chairman.

VICE CHAIRMAN ROBINSON: Yes. Thank you very much, Representative Simmons. I share my colleagues' admiration for your vision on this subject and the way you have elegantly laid it out this morning.

I just returned from Taipei. I would say quickly that I was impressed by the resolve of the sitting government to find at long last the modality to get the major elements at least of that U.S. arms package through. You know they're jockeying with a number of different legislative alternatives, but they understand I think the necessity of very expeditious action given perceptions in this country, among other concerns.

Given the massive and growing scale of the Chinese missile threat arrayed against Taiwan now, do you believe that we're approaching a time when the U.S. sale of an Aegis-based missile defense capability may be indicated?

MR. SIMMONS: I can't really respond to that question accurately because I have not been party to any private discussions that may be taking place. But again I think the build up of missile capabilities in the region and the reluctance to aggressively pursue some defense against it is troublesome.

Now, whether or not introducing an Aegis-system into the system is the solution, I don't know. Clearly, we have that capability. Whether that is a capability that should be passed to Taiwan, I think remains to be seen, but I am not aware of any private discussions along those lines. It's a good question. I'd be interested to pursue it, and I thank you for that.

CHAIRMAN D'AMATO: Thank you very much. There are some other questions, but I think you're

out of time, Congressman. We don't want to hold you up. We would like to work with you in your role on the Taiwan-China Congressional Caucus to further develop this dialogue if that would be fine with you.

MR. SIMMONS: I would look forward to thank and I thank you very much for the work you're doing. I think it's very important to the peace and security of the region. I thank you very much.

CHAIRMAN D'AMATO: Thank you very much, Congressman.

MR. SIMMONS: [Chinese].

[Laughter.]

CHAIRMAN D'AMATO: We will continue on now with opening remarks for our hearing. Good morning everyone. Thank you very much. I think it would be helpful if those who have cell phones would be willing to turn them off during the hearing. We'd appreciate that very much, and Mr. Keith, you can go ahead and take your seat at the table, if you don't mind listening to a couple of opening remarks.

MR. KEITH: No, sir. It would be my pleasure.

CHAIRMAN D'AMATO: Good morning and welcome to the U.S.-China Economic and Security Review Commission's hearing on "China's Military Modernization and Cross-Strait Balance."

This important hearing is being co-chaired today by Commissioner Stephen Bryen, Thomas Donnelly and myself. Before we begin the hearing, I want to stress that China's military modernization, both nuclear and conventional, has major implications for the United States, Taiwan and our other allies in the Pacific region.

After a decade and a half of double digit growth in annual defense budgets, China has emerged with an arsenal of advanced new weapons and improved command and control systems. And because the prevention of Taiwan independence apparently is the central mission of China's military, the preponderance of these new weapons and capabilities have been based along China's eastern seaboard within striking range of Taiwan and regionally based

U.S. and allied forces that may be called upon to respond to any potential aggression in the Taiwan Strait.

China's recent deployments of ballistic and cruise missile, advanced fighter bombers, quiet new attack submarines already pose a serious challenge to Taiwan's self-defense forces. Moreover, it appears that China's near-term goal is to develop the capability to preclude and deter U.S. involvement in the event of a showdown over Taiwan. For this reason, it is extremely important that Congress understands what military capabilities China possesses and will possess, and what challenges those capabilities may present to Taiwan and U.S. Forces.

We have been aware, for example, that China's modernization efforts have stressed improvements in naval, air and missile forces. We are also aware that China is actively pursuing unconventional means or asymmetrical means, as they call it, such as cyber attack to forestall or impede a response to potential Chinese aggression towards



Taiwan, and we will have some discussion today of the cyber question. The scope and scale of the Chinese cyber attack on American systems, we regard as an unfriendly act and a continually unfriendly act.

We will be interested in learning in greater detail the full extent of these improvements. We will also want to understand what steps the United States and Taiwan are taking and should be taking to address the emerging challenges brought on by China's modernization effort. While China's forces are modernizing at a rapid clip, Taiwan has demonstrated a remarkable lack of urgency in moving forward to the acquisition of essential defense articles that have been offered by the United States.

To a significant degree, it appears that an internal Taiwan politics are the cause of this delay. But the lack of public outcry makes it unclear whether the Taiwan public has fully embraced the need for these weapons or is willing to foot the bill. While the U.S. has historically demonstrated

their ready willingness to assist countries that are committed to their own defense, the American public may be less inclined to assist a country that has failed to provide adequately for its own defense needs.

Finally, it's imperative for Washington to understand China strategy with respect to Taiwan fully and to consider how as a nation we should respond. For over 25 years, successive U.S. administrations have exercised a policy of deliberate ambiguity with regard to our commitment to defend Taiwan. This policy has effectively deterred both China and Taiwan from taking unilateral steps which would disrupt the peace and civility across the Strait.

China's growing military strength and international confidence may at some point tempt their leaders to make a forceful play for Taiwan. It is important that U.S. lawmakers fully understand the significance of the U.S. commitment and how it plays out regionally both now and well into the future. Armed with that understanding, lawmakers

will be better able to make informed decisions on the necessary appropriations and allocations to U.S. defense spending.

I'd like to turn the microphone over now to the Commission's Vice Chairman Roger Robinson.

VICE CHAIRMAN ROBINSON: Thank you, Mr. Chairman. On behalf of the U.S.-China Economic and Security Review Commission, we'd like to again welcome you to this hearing. As the chairman mentioned, today's focus is on an array of considerations concerning the political and military relationship between the United States, China and Taiwan.

The Commission's statutory mandate directs it to assess, among other key dynamics of the U.S.-China relationship, quote, "the triangular economic and security relationship among the United States, Taipei and Beijing, including Beijing's military modernization and force deployments aimed at Taipei, and the adequacy of the United States Executive Branch coordination and consultations with Congress

on United States arms sales and defense relationship with Taipei."

Recent events have substantially altered this triangular relationship. These include the election of President Chen Shui-bian in 2000, his decision to hold a politically charged referendum during last year's presidential election, China's passage of an anti-secession law, two highly publicized visits by Taiwan opposition leaders to China, growing economic and social ties between Taiwan and China, the growing lethality of China's offensive military build up, and Taiwan's continued political inability to move forward on necessary defense acquisitions.

The administration properly remains adamant that China and Taiwan resolve their differences peacefully. That said, the speed of China's rising economic and military capabilities is quite daunting. As the recently released DoD report on China's military notes, China is at a, quote, "strategic crossroads," and it's an open question how China will use its growing power.

We may have a strong hint in the substance of this hearing. Frankly, what's baffling to me is the Chinese thinking that underpins its acquisition of front-line sophisticated systems designed to strike successfully a U.S. carrier and other major American naval and land assets.

What do they believe the consequences would be of attacking an American carrier with some 5,000 American servicemen and women on board? It would be prudent for China to think again about the wisdom of such an action under virtually any circumstances as it clearly risks an especially tragic miscalculation related to their vital national interests.

Today, we have with us a distinguished group of panelists who will help us examine a range of issues related to this crucial dimension of our bilateral relationship, as it arguably represents the greatest threat to U.S. security interests in the 21st century.

I'd now like to turn the proceedings over to Commissioner and Co-Chairman for these hearing, Dr. Stephen Bryen. Thank you.

CHAIRMAN CO-CHAIR BRYEN: Thank you, Roger.  
We have one more opening statement.

HEARING CO-CHAIR DONNELLY: Thank you, Mr. Chairman. I did my homework rather late last night, but since I've done it, I would like to get some credit for it. So if you'll bear with me very briefly, I'll try to get through this, and of course, I'd like to add my welcome to that expressed by the chairman and by my colleagues, not just to you, Mr. Keith, but to the really quite impressive collection of astute and accomplished witnesses we'll have before us today.

With the hearing today, the Commission returns to one of its core concerns and that is assessing the growing military power of the People's Republic of China, the impact of that fact on American interests, and in particular, the increasingly unstable balance across the Taiwan Strait.

In its past reports, and I would expect again this year, the Commission has well chronicled the rapid, substantial and intensely focused

development of the People's Liberation Army. While experts and intelligence analysts differ on the details, the undeniable truth is that this trend reflects a long term commitment by Beijing pursued through changes in leadership and despite the fact, as Defense Secretary Don Rumsfeld has observed recently, the fact that China has no enemies and faces no immediate threat.

Indeed, our Pentagon now regards surging Chinese military strength as one of the emerging strategic realities for the coming century. The current Quadrennial Defense Review speaks of a variety of challenges, but the most profound of these it dubs a disruptive challenge, implying an ability to fundamentally alter the international order of the post Cold War era.

Only a rising China possesses the present and potential power to challenge the American peace, either as a leader of a rival bloc of countries or in time by itself.

This is not simply a challenge to American security and political interest. It's inevitably a

challenge to American principles of liberty and individual rights. It's also a challenge to our friends and allies who share these universal principles.

That these principles are not ours alone is nowhere better illustrated than in East Asia and in particular in Taiwan. Not so long ago, it was widely argued that democracy was a uniquely Western form of government, unsuited to Asian and especially to Chinese culture. The vibrant, even hectic, freedom on Taiwan and in Taipei today puts the lie to that claim.

But the democracies, as it their peaceful practice, prefer the pursuit of happiness--too much alliteration--to the preparations for war and the precarious balance of political power in Taiwan has handicapped the island's efforts to stiffen its defenses in the face of the escalating Chinese threat.

The opposition party in Taipei sometimes seems to place its own desire for power above the nation's desire to remain free, and just to diverge



from my prepared remarks, we've talked about this already today. Just to put it in some context, President Chen has made a dozen major speeches calling for the passage of the special budget. Taiwanese defense spending, inadequate as it is, is about 30 percent larger as a share of its national wealth than German defense spending. The DPP is committed to a significant 20 percent rise in defense spending, and remains throughout all of this as one of the largest purchasers of American military hardware and military expertise in the world, so we need to keep that in context.

Meanwhile, the shabby support offered by a succession of American administrations, support that amazingly has shrunk, even as Chinese democracy has taken root, has done much to create the current impasse. But because the United States merits such respect and is so close to the people of Taiwan, we can also do much to end this impasse by making it clear that we support President Chen and his requested special budget.

This is not just the principled policy but the prudent policy. The United States has long held that the differences between Beijing and Taipei must not be settled by force nor by the threat of force nor by intimidation. That is the expression of our deepest security interests and those of our allies in the region. Maintaining stability at this most dangerous flashpoint will remain a cornerstone of American strategy, and with all that in mind, I look forward to, Mr. Keith, your testimony and the balance of the hearing today.

Thank you for your indulgence, my fellow commissioners.

CHAIRMAN CO-CHAIR BRYEN: It's my responsibility to introduce Panel II, which is a panel of one.

[Laughter.]

CHAIRMAN CO-CHAIR BRYEN: So you should feel that you're very special because this rarely, if ever, happens. I must say that it's remarkable that you arrived here, that we arrived here, and that our audience arrived here because we all were

sent to the Dirksen Building so there are many people wandering the halls trying to find this hearing.

This panel this morning I hope will take a look at the issues that have been posed already by my colleagues in their opening statements. I don't think I need to say more. We're all immensely concerned about the nature, the quality and the threat of the build-up of China's military forces, and their focus on both Taiwan and on the U.S. fleet's freedom of maneuver.

And I hope that we can address that and the related issues that go with it in your testimony. Mr. Keith has a very impressive biography. Let me just give you some of the highlights. I know he knows it, but not everyone else knows it.

But he served as Consul General of the United States of America in Hong Kong I guess in August 2002. Most recently he was the Director of the Office of Chinese Affairs at the U.S. Department of State and now is a Senior Advisor for East Asia and Pacific Affairs.

Some of his background. He was born in Roanoke, Virginia. I don't know how you get to be a Senior Advisor when you're born in 1957. I think that's pretty impressive in and of itself. He lived as a child in Tokyo, in Jakarta, Hong Kong and Taipei. While in Hong Kong, from 1968 to 1971, he attended the Hong Kong International School. He joined the U.S. Foreign Service in 1980 after graduating with a B.A. degree in English from the College of William and Mary in Williamsburg. He speaks Mandarin Chinese, Korean and Indonesia; is that correct?

MR. KEITH: Yes, sir.

CHAIRMAN CO-CHAIR BRYEN: He has received from the Department of State the Superior Meritorious Awards. He's clearly an expert on the whole region. Some of his former colleagues are sitting up here with me today. He served in Beijing together I believe with Mr. Wortzel, so you bring both the feeling of the culture, the dynamic of the area, the response. You have a good sense, I think, of the responsibilities the United States has for

maintaining peace and tranquility in that region, and we very much welcome your statement and hope you will be able to take questions from the panel thereafter.

MR. KEITH: Commissioner, thank you very much for your introduction, and I would be very happy to provide a bit of a context for your questions and then afterwards answer any and all questions that you might have to the best of my ability. I do commend the Commission for addressing attention to what is an important subject, and Mr. Chairman and commissioners, thank you for letting me be part of this morning's activities.

The overriding objective of this administration with regard to the subject at hand is, as you might expect, to advance the U.S. national interests and to look to the larger American interests both with regard to our interaction with Taiwan and with the People's Republic of China.

I thought I might start, if I could, by giving you a quick review of some of the things that

have happened since you last examined this as a Commission, perhaps to add a little bit of the context for the questions that might follow.

There have been, as many Commission members have already noted, been some noteworthy activities in the time that's passed since you last examined this question. I'll just make brief reference to trade. A number of commissioners have already noted the increasing integration that's going on economically across the Strait. Just to give a little bit of flavor to that, Taiwan enjoys a \$51 billion in its trade with China.

China imported \$65 billion worth of goods from Taiwan which is more than ten percent of all the imports that China had in 2004. Just to give you a sense of the magnitude of Taiwan's involvement in the economic opening on the mainland and to also add a little flavor to that, both in southern China and in east China, you see these Taiwan companies directly involved in activities on the mainland, directly involved in conveying Western business practices, and what goes with that, of course, are

Western concepts of individual worth and imbedded in management practices are Western concepts of market-oriented practices that we would like to see developed further in China.

So I think in addition to the benefit that flows directly to the people of Taiwan in this kind of exchange, there is also a larger issue that we support in terms of Taiwan's economic interaction with mainland China.

Economic interaction also implies opportunities for other types of interaction including cultural and what we sometimes refer to as human interaction, that is across a broad range of other areas, not specifically commercial or trade. There is what Commission members will know has been referred to as the "Macau model" for these kinds of activities. That is originally negotiations in Macau that had been conducted between private mainland China and Taiwan organizations with low level government involvement. And these pointed toward in the initial instance lifting a ban on direct flights across the Strait for the duration of

the Lunar New Year holiday, the opportunities for families to reunite over this holiday, a traditional activity that was facilitated by this agreement in 2005.

They occurred in 2003, but not in 2004. It's been this sort of activity growing from the economic integration into these other areas that has led to blossoming of the integration across the Strait, and just to give you a sense of the magnitude, according to mainland statistics, nearly 3.7 million Taiwan citizens visited the mainland in 2004, and it's estimated that anywhere between 900,000 and up to a million people from Taiwan, that is out of the population of 23 million, reside in the PRC and do business in the PRC.

So with a little bit of flavor of the economic interaction, I'll mention a couple of political exchanges that have occurred since the Commission last took a look at these issues. There have been what I would describe as truly historic breakthroughs, but in the context of really no change in the fundamental interaction and I'll come



back to that point. The key point being that there hasn't been dialogue since the Commission last held a hearing on this subject between Beijing and the elected representatives of the Taiwan people, which is really what has to happen for there to be a genuine change in the atmosphere.

Nevertheless, it was remarkable that the Communists and Nationalist Party representatives for the first time since 1949 met when Lien Chan, the lead of the Nationalist Party, traveled to Beijing in April and had an opportunity to sit down on the mainland and talk through issues.

Similarly, the People's First Party James Soong, these two opposition parties, had an opportunity soon afterwards, and I'd be happy to go into a little bit more detail if Commission members are interested, and I would note parenthetically that James Soong is this week on the mainland also.

We do view, the administration views these exchanges favorably, and we've encouraged an increased contact and integration across the Strait, but as I mentioned a vital piece is missing, and the

vital piece is missing, and that is sustained dialogue between Beijing and the elected government, the peoples representatives in Taipei.

And just to mention briefly that the lack of such dialogue is clearly detrimental. I think in part because of the lack of that sort of communication, communication that has existed in the past, of course, if you go back to 1992, but without that sort of opportunity to talk things through, one thing that has come up is in March after five years of deliberation on the mainland side--I know there's been reference to this anti-secession legislation already--clearly the National People's Congress passing this law was an unfortunate and unhelpful development, as Secretary Rice has pointed out and one that one would have hoped would not have been necessary had there been the kind of dialogue that we've been encouraging across the Strait with elected representatives of the people of Taiwan.

And it runs really counter to these other trends that, at least on the surface, some seem to want to foster.

Turning more directly to a subject which I know you've discussed already in the previous panel with Congressman Simmons--I don't want to take this opportunity to go in depth into Taiwan politics, and I know Commission members have traveled themselves to Taiwan and know a great deal about this context already--I would simply note the deep fissures that have existed for a long time continue to exist between the ruling party and the opposition coalition, and importantly, the opposition coalition which holds a majority in Taiwan's Legislative Yuan. I would simply note this for Commission members' background as we talk about how the U.S. fulfills its obligations under the Taiwan Relations Act as we assist Taiwan in a range of areas to acquire the necessary skills and capabilities or as it is in the Taiwan Relations Act, to maintain a sufficient self-defense capability.

To date, the opposition controlled legislature has failed to approve the special budget containing funding for these purchases, as you well know, and meanwhile President Chen's administration

in its regular budget proposal over the last six years has requested only marginal growth in defense spending. And I would encourage Commission members to focus not only the special budget, but also on the broader trends in defense spending and the list of priorities in that overall perspective including stockpiling ammunition and this sort of thing that is perhaps a little bit less headline grabbing, but nevertheless extremely important to sustaining capability along the lines of what was discussed in the previous panel.

And I should mention that that has happened even as the administration in Taipei has asked for double-digit increases for economic and social spending.

There have been important positive developments during the period however. I do want to note that Taiwan's armed services have improved their capability to operate jointly. The civilian leadership has been strengthened over the uniformed services, but we're increasingly concerned that Taipei is failing to invest both in key advanced

capabilities and also, as I mentioned, in these lower profile but still vital capabilities--command and control, hardening, ordnance stockpiles--these sorts of things that are vital to the survivability and thus to deterrence.

I'll turn now briefly to China's military modernization. I think Commission members are very familiar with Department of Defense's annual report, "The Military Power of the People's Republic of China." The focus in that report is China's modernization, its procurement of new weapons, its evolution of operational doctrine and introduction of new capabilities, as you've discussed in the previous panel.

As enunciated in the Department of Defense's report, we see China facing basic choices, choices that China's leaders must make as its power and influence grows and as its modernization of its military continues.

Through visits such as Admiral Fallon, our PACOM Commander's recent trip to China, we are seeking through engagement with the military in

China to try and increase the transparency of their military, looking for transparent and reciprocal relationship, trying to find out more about their intent and the scope and direction of their modernization. I think that's an important aspect of what we're trying to do.

As Secretary Rice has said repeatedly, this is an issue that we'll continue to follow. We're monitoring the modernization closely and anticipate that this will be a subject in our senior exchanges with the Chinese for the foreseeable future.

I think another part of the question of China's military modernization and the uncertainty that is created China's more prominent appearance in many different areas is the role that it's playing regionally.

I think there are some indications that China is moving toward greater transparency and inclusiveness in its political engagements in the region. I think this has to be just as true with its military.

Just to give you some examples in terms of China's interaction with ASEAN, in terms of China's interaction with Southeast Asian nations, we're seeing it play a much more active role, and a role that's more open to interaction with these regional groupings as opposed to individual countries, as opposed to bilateral relationships, which we think is a positive trend and provides an opportunity for others in the region to register their views with the Chinese and influence Chinese thinking.

I think, of course, it's true that it's not only in these regional interactions. It's not only the positive side that we have to look at, but there is dissonance here and I think one very clear element or clear illustration of that in terms of the confusing signals that might be sent by the Chinese as they engage in the region is the recent Sino-Russian military exercise that occurred.

We can certainly see the logic of advancing transparency and building confidence between two nations' militaries. In fact, this is something we would like to do in U.S.-Chinese military-to-

military relations. But just to contrast the effect of the Sino-Russian exercises with what we would hope to see, one can imagine the consequence if we were engaged in a similar sort of exercise. We would hope for an event that threatened no one and built regional confidence, that added to regional stability, and that underlined both countries' commitment to regional stability, and by that measure, this recent exercise with its amphibious operations, maritime blockades and cruise missile launches came up short.

Mr. Chairman, the United States has a vital interest in the peaceful resolution of differences across the Strait. As the president told Premier Wen Jiabao on December 9, 2003, we don't support Taiwan independence and we oppose unilateral attempts by either China or Taiwan to alter the cross-Strait status quo. That set of commitments is anchored in the Taiwan Relations Act and our Three Joint Communiqués, which remain the bedrock of our policy today.



Mr. Commissioners, Mr. Chairman, Mr. Vice Chairman, that concludes my prepared remarks. I'd be happy to engage in any sort of discussion that would be helpful to the Commission.

CHAIRMAN CO-CHAIR BRYEN: Thank you very much. Commissioner D'Amato.

CHAIRMAN D'AMATO: Thank you, Mr. Chairman, and thank you very much, Mr. Keith, for being here. I also wanted to publicly thank you for the hospitality that you gave the Commission while you were Consul in Hong Kong two years ago when we visited. It made our trip very, very valuable and we really appreciate the effort that you made in making us feel comfortable and hospitable in Hong Kong.

MR. KEITH: An honor to receive you, sir.

CHAIRMAN D'AMATO: Thank you. I just want to make one comment and I have a question. I think I have a different view of the effect of the cross-strait dialogue with the opposition parties. It seems to me that if the Chinese came to the United

States and started negotiating with John Kerry that the White House would be less than pleased.

You know, this, in a sense, is an attempt, I think--maybe it didn't have the effect--but an attempt to weaken the current leadership on Taiwan, and I think that's unhelpful.

So the question I have is we recommended in our last report that the United States government facilitate a dialogue between the two sides, and that's a delicate matter. Can you say that the United States government is, in fact, attempting to facilitate a dialogue with the current leadership of Taiwan and the elected leadership of Taiwan with the Chinese authorities?

MR. KEITH: Mr. Chairman, as you suggested, it's a delicate matter and much depends on precisely what you mean by "facilitation." Certainly we are encouraging this sort of dialogue. This is something that's been going on for seven administrations. Since 1972, we essentially have agreed to disagree with the PRC on Taiwan and under the terms of the Taiwan Relations Act have played

the appropriate role that we should play with Taiwan.

Through both official and unofficial interaction with both sides, we've encouraged the kind of dialogue that occurred back in the '90s which I thought was very productive, and I certainly have to agree with you, that absent the centerpiece of interaction between Beijing and the elected representatives of the people in Taiwan, you have a very incomplete picture which it does not in any way meet the definition of a satisfactory or in any overall sense productive dialogue.

I do believe we would like to see more interaction between the people of Taiwan and the people of the PRC, and in that respect meeting with the opposition parties, were it part of a larger picture, I think would be even more productive. I think the fact that the Chinese have chosen not to engage directly with the elected representatives of the people of Taiwan, as I mentioned in my remarks at the outset, indicates no real change in their fundamental position which I think is regrettable.

We certainly are urging, as the president has most recently this week, the government of the People's Republic of China, to engage directly with the representatives of the Taiwan people.

And in that regard, we are facilitating in the sense, in a more narrow sense that perhaps you suggested, Mr. Chairman, by pursuing with each side independently our strong encouragement of meaningful dialogue across the Strait, and it remains our view that the way this is going to be resolved in the future is by direct dialogue between Chinese on both sides of the Strait.

CHAIRMAN D'AMATO: Yeah. Do I understand you to say that the president engaged President Hu on this matter during his visit in New York?

MR. KEITH: Yes, sir, this week in New York, the president was very clear in encouraging the Chinese side to engage directly with the elected representatives of the people of Taiwan.

CHAIRMAN D'AMATO: Thank you. Thank you, Mr. Chairman.

CHAIRMAN CO-CHAIR BRYEN: Thank you.

Commissioner Dreyer.

COMMISSIONER TEUFEL DREYER: I'm intrigued. This wasn't my question, but what did President Hu Jintao say in reply to the president of the United States?

MR. KEITH: Well, it's not my place, I suppose, to report in open session on precisely what occurred, but I can tell you what generally is the response from the Chinese side, and I would hasten to add that this has been our position for quite a long time, and we take every opportunity. That's not encouraging I suppose in the sense that we've had to keep at it. We're not getting results, of course, and, more to the point, the Taiwan people are not getting results because Beijing is not engaging as we are encouraging it to do.

But the Chinese position, the mainland Chinese position, is that it's prepared to engage in precisely this sort of discussion with the elected representatives of the people of Taiwan, certain conditions being met.

COMMISSIONER TEUFEL DREYER: The one-China policy.

MR. KEITH: Yes, Commissioner Dreyer, that's correct.

COMMISSIONER TEUFEL DREYER: Yeah. No, I just wondered what President Hu had responded this time and was it the standard response?

MR. KEITH: Not having been in the meeting, I can't tell you, but I certainly would assume that that's what we heard back, and I do know that there was no breakthrough, there was no announcement. So I have to make that assumption, but I'm sorry I don't have precisely the answer to your question.

COMMISSIONER TEUFEL DREYER: Now, my real question.

MR. KEITH: Please.

COMMISSIONER TEUFEL DREYER: Our previous witness, Representative Simmons, mentioned that he did not know what the State Department was doing with Taiwan with regard to discussing the arms package with them. Could you tell us what the State Department is doing?

MR. KEITH: Yes. And certainly you'll hear more about this, as you may know, in San Diego next week. We'll have a meeting with Taiwan and--

COMMISSIONER TEUFEL DREYER: Absolutely.

MR. KEITH: --our Office of the Secretary of Defense will lead our discussions there, and you'll move along the lines of what's being discussed here today. We have engaged over an extensive period of time both through the American Institute in Taiwan in Taipei in its discussions with leaders in Taipei and from a number of officials here in Washington in an effort to do the two things that I highlighted in my prepared remarks. That is encourage the passage of this special defense budget and also to encourage attention to the priority that these lower profile but no less important programs or resources.

Our effort has been to get these budgets passed, both the special and the regular defense budgets, aiming at both the package of which you're very familiar, as well as these expenditures on things such as ammunition stockpiles and the like.

That's been an effort that we've engaged in over the years, not with one party or another but as I think should be clear, our position is we need to see results, and we're not so interested at this point, having had a long conversation with the government in Taipei on this subject, in further exploration of the in's and out's of the intricacies of domestic politics.

And from our perspective, this has become an issue that requires results and requires whatever it takes in terms of the ruling party and the opposition parties coming together to produce positive outcomes.

COMMISSIONER TEUFEL DREYER: And the response is doubtless we understand, but the other party doesn't? Each one is saying that?

MR. KEITH: You know very well how bureaucracies work, and we are hearing something of a bureaucratic response and I realize that this is complicated. I don't mean to understate the complexities of domestic politics anywhere including in Taiwan, but we do think this is important enough



that political leadership is necessary regardless of party, regardless of position in our out of power. It's time for this to get done.

COMMISSIONER TEUFEL DREYER: Thank you.

MR. KEITH: Thank you, Commissioner Dreyer.

CHAIRMAN CO-CHAIR BRYEN: Commissioner Robinson.

VICE CHAIRMAN ROBINSON: Thank you, Mr. Chairman. And Mr. Keith, we want to applaud you again for your terrific service to the country and the wonderful job you did in Hong Kong and State is very lucky to have you back.

MR. KEITH: Thank you, sir.

VICE CHAIRMAN ROBINSON: Leave it to say that there are a number of dynamics in the cross-Strait relationship, Japan being one such dimension. It's becoming I think an increasingly integral player. As you know, Tokyo earlier this year expanded what I think I would term, and there's probably a better term of art for it, its designated areas of strategic concern to include the Taiwan Strait. Japan is likewise facing a rapidly growing

Chinese submarine threat, as was pointed out by Representative Simmons, among those posed by other Chinese weapons systems, and is actively pursuing missile defense initiatives, including the SM-3 missile development effort with the United States, as well as an indigenously manufactured maritime patrol aircraft.

Could you provide us with your sense of how the State Department views the future role of Japan in cross-Strait relations and the adequacy of Tokyo's response to the rapidly growing Chinese military threat to its sea lanes and territory?

MR. KEITH: I'm sorry, sir. Could you repeat the second question?

VICE CHAIRMAN ROBINSON: And the adequacy of Tokyo's response to the rapidly growing Chinese military threat to its sea lanes and territory.

MR. KEITH: Well, sir, I should preface my remarks by indicating that I'm not an expert on Japan's military or its development of military strategy, but I would be certainly happy to put this in the context of cross-Strait relations for you and

if there is anything that is lacking in my response, I'd be happy to take your question back and provide more.

VICE CHAIRMAN ROBINSON: Thank you.

MR. KEITH: In the cross-Strait relationship, of course, there are many, many complicated trends or many threads to the relationship, one of which, of course, the history of Japan's experience in Taiwan and the connections that exist, people to people and otherwise, between Taiwan and Japan.

Also, one has to consider this against the backdrop of the difficulties in Sino-Japanese relations that are ongoing, but at this point quite notable. So I think one can't separate a discussion of cross-Strait ties and any perspective on Japan from the nationalistic sentiment that exists on the mainland, both in terms of what the mainland refers to as reunification--that is nationalistic sentiment among the Chinese population about Taiwan--and also a very emotional and nationalist response to Japan among the Chinese people.

So I think these swirl in the cross-Strait relationship, and Mr. Vice Chairman, I think you're quite right to point to this as an element to be considered clearly. Also recognizing our alliance relationship with Japan and our obligations under the Taiwan Relations Act, one has to recognize that this is a salient point.

I think looking to the future, Japan is, you know, gradually developing opportunities to modernize and mature and keep pace with the transformation of Asia, and I think as that's happening, it is providing opportunities for others in the region to respond and react either positively or negatively. It's something that the Americans are working very closely with Japan on, and it's something in our alliance relationship that relates directly to our forward deployed forces in Japan, so we want to go forward with Japan as it looks to its responsibilities commensurate with its economic power in a way that is appropriate to the region and comfortable to the Japanese people, but we do have a very clear sense from the American perspective that

it is time, it is appropriate for Japan to take on greater responsibilities around the world commensurate with the economic benefits that it gets from the international system.

VICE CHAIRMAN ROBINSON: Thank you.

MR. KEITH: Thank you, sir.

CHAIRMAN CO-CHAIR BRYEN: Thank the commissioner. Commissioner Wessel.

COMMISSIONER WESSEL: Thank you, Mr. Chairman. I like my colleagues appreciate you being here today as well as your service. I'd like to ask potentially a more organic question, if you will. As we enter our annual report-writing phase here in the commission, we tend to spend a tremendous amount of time on these core issues and the issue of our interest in Taiwan vis-a-vis Taiwan are somewhat holographic, I guess; where you stand, I guess, determines what you see. Strategic ambiguity, a number of other terms have been applied to this relationship and our approach over time to it.

I'm having trouble squaring the president's inaugural address and the values which it espoused,

as did President Clinton--this is not a partisan comment--with the policy of strategic ambiguity. If one believes in democratic freedoms and those values, one has to question the current approach which seems to be hoping the problem goes away, gets settled peacefully, and in China's point of view, there is only way to do that, which is to unify.

How should we be addressing this organic issue? How should we be viewing our strategic interests and the values that we want to continue to hold dear to?

MR. KEITH: Well, sir, I think that's a fundamental question, and I think it's one that we've answered since 1972 in the same way. That is in keeping with what happened in 1979, the Taiwan Relations Act, we've made certain that whichever way this is resolved, it will not be by coercion, which is to say that one side of the equation, the Taiwan side, will proceed to resolution only when and if the people of Taiwan approve of and desire that resolution, and in that respect the aspirations of

the Taiwan people will be accommodated in any resolution or there won't be one.

That's my sense of the organic problem that you describe. It certainly is the case that preservation of the status quo is a policy designed to put off resolution in a sense because the players, and this truly is something that I think has been true since 1972 and in every administration of either party, agreeing to disagree about Taiwan is as far as we could get, and under those circumstances, preservation of the status quo is an appropriate and I think successful policy if you look at what's happened in that period of time. The flourishing of Taiwan's democracy which occurred over the course or doing the period of this policy, and the tremendous success of not only the Taiwan economy but the economic reform in opening up with the People's Republic of China.

Looking to the larger interest of the American people, it seems to me that we've managed over this period to both maximize our interests in engaging both Taiwan and the PRC as well, as the

same time, finding a way to support the fundamental interest of the Taiwan people.

I would like to see a policy in which reunification from the Chinese perspective, resolution of this issue on terms appropriate to Taiwan's democracy from the Taiwan perspective and a stable prosperous and peaceful region from the American perspective could be all be brought together in one neat package.

Unfortunately, that simply hasn't been possible. Diplomacy hasn't been able to achieve that thus far. Therefore, in falling short of that final resolution of the issue, we, it seems to me, at least have maximized both our interest and the protection of our ideals and values by this interim measure. No doubt you're correct. This has to be seen as an interim measure.

COMMISSIONER WESSEL: Thank you.

MR. KEITH: Thank you, Mr. Commissioner.

CHAIRMAN CO-CHAIR BRYEN: Thank you.

Commissioner Mulloy.



COMMISSIONER MULLOY: Mr. Keith, again, thank you for your service to our country.

MR. KEITH: Yes, sir. Thank you.

COMMISSIONER MULLOY: We do not support Taiwanese independence. I think you made that clear. That's the administration's policy and that's been the policy--has that been going back through the years, that's been American policy?

MR. KEITH: President Bush enunciated this particular formulation during his tenure, but I think it's clear, if you go back through the Communiques, that we've left this issue in essentially the form it is now. It's been enunciated in a little bit different terms before.

COMMISSIONER MULLOY: So that would lead me to believe that if there's any--some people perceive there could be a problem with China's growing power--but we've made our decision that we don't support Taiwanese independence, and that if they make a deal with China, that that's fine and dandy with us as long as its done peacefully by both sides and they both agree to it.

MR. KEITH: Yes, sir.

COMMISSIONER MULLOY: Okay. Here's what I see--I want to look at it holistically as well-- Taiwan has huge investment in China. I think they're the largest foreign investor in China.

MR. KEITH: They're among the largest, sir.

COMMISSIONER MULLOY: Yeah. And we've seen some of this foreign investment, and it's high tech investment. This isn't low tech. The Taiwanese are helping China build its comprehensive national power. They got a million Chinese living in Taiwan contributing to China's economy in a major way. Many of the foreign trained Taiwanese that came to the United States got educated. Many of them are now in China helping China build its comprehensive national power.

Many Taiwanese businessmen are making huge profits from their operations in China. You mentioned that I think Taiwan is running a major trade surplus with China, but they're contributing to the American trade deficit with China because many of the foreign invested companies that are

exporting so rapidly to the United States are Taiwanese companies.

So I think there's some schizophrenia here in this whole situation. Taiwan is building China's comprehensive national power in a major way. The KMT, who I think represent a lot of the foreign guys who are investing in China, and we talked with some of them when we were there, they seem to be wanting to move towards some movement of rectifying and unifying the two countries. That's what I see going on.

Their politicians are going over there. But somehow or other, America is on the hook. Taiwan is building China's comprehensive national power. Their politicians are going and trying, you know, rectify the situation, but somehow we're left on the hook that if China moves against them, this much stronger China, that we're on the hook to defend them against.

I mean it just seems to me that something doesn't make sense about all this. And do you see a contradiction or a schizophrenic problem here?

MR. KEITH: Well, sir, if I may, I would broaden your observation. I mean I think this is a direct result of China's decision in terms of the way that it's going to modernize not only its military but its entire country. That is in start contrast to, for example, the Japanese model of modernization, the Chinese threw the doors open and wanted investment to come in and wanted foreign investors to fuel its development and its modernization.

And overall that's had a very positive effect in terms of bringing China into the international system and giving it a stake in the international system such that as a stakeholder, it is taking decisions based on its own national interests that are convergent, increasingly so, with ours in many areas, not all of them, of course, and there are important exceptions to this general principle.

But if you look at something like intellectual property, where at one point when China wasn't part of the system, it had nothing to

protect, it was more of a problem for us. As it became more and more a part of the system, as a direct result of this decision to draw foreign investment in, it started to have its own intellectual property rights that needed to be protected and had a real stake in doing so, and now is working with us more. This is still our number one issue on the economic side, but at least we have the central government recognizing the problem and seeking to find ways to enforce the kinds of regulations that we'd like to see enforced.

One can elaborate or expand from that into other areas, and we'd like over time for that to expand into the military-to-military and security areas such that China is more engaged in this international system in such ways that it will support, that it will multiply the kinds of investments that we're making all around the world in peace, stability and prosperity rather than work against this, and this is true on the arms control and technology transfer side as well.

So there are some positive benefits to this investment flowing in, the opening up and the expanded influence that the outside world has, including that Taiwan has in China, but it does create uncertainty when China is more prominent in some of these areas and isn't indicating precisely where it wants to head.

Therefore, it seems to me, sir, that part of the answer here is that in order to preclude or prevent or assure those who are hedging their bets in response to the uncertainty that China is creating, it needs to, one, make sure that its policies are not, once verified, are not those that would be divergent or even come in conflict with the rest of the world, and, two, it needs to communicate better about all of those policies.

If it has a particular intention with regard to the Sino-Russian exercises, for example, it didn't do a very good of telling the rest of the world about it, including Taiwan. So it seems to me that this complicated picture that you present is a direct result of the fact that, one, China opened

itself up and has this outside influence, and, two, it's becoming more prominent all around the world, and in areas I would venture to guess, in some areas where it itself doesn't know how it wants to act or where it wants to go, it's not doing a very good job of explaining its motivations and intent to the rest of the world.

COMMISSIONER MULLOY: Thank you.

MR. KEITH: Yes, sir.

CHAIRMAN CO-CHAIR BRYEN: Thank you very much. Commissioner Wortzel.

COMMISSIONER WORTZEL: Thanks for your testimony, Jim.

MR. KEITH: Yes, sir.

COMMISSIONER WORTZEL: Great job. We just heard from Congressman Simmons of Connecticut that the State Department hasn't sent a formal notification to Congress for the arms sales package approved for Taiwan by President Bush. Now you testified that Taiwan is buying items off that list from the regular budget although the special budget hasn't been passed.

Is the Taiwan government simply buying such small amounts that the purchases fail to rise to the point of requiring congressional notification, and what are they buying? Are these things that make sense from a defensive standpoint and really improve their armed forces? And finally, is the State Department withholding that notification from Congress for other political or other foreign policy reasons?

MR. KEITH: Thank you for your question, Commissioner Wortzel. I'm afraid I'm getting out of my area of my expertise, and if I may I'll take your question, and I promise to get you an answer on it.

I can answer the second part of your question now, however, and that is that there is no withholding of any notification that I'm aware of, on the basis of political or other reasons. As to precisely what's happening in the relationship as far as arms sales on the conventional side, that's not something that I'm aware of. But I will undertake to get you an answer as soon as possible.



CHAIRMAN CO-CHAIR BRYEN: I just want to follow up that last point.

MR. KEITH: Yes, sir.

CHAIRMAN CO-CHAIR BRYEN: So what you're telling us, and I just want to make sure that we can reflect it in our record correctly, is that you're prepared, the State Department being you, the State Department is prepared to go forward soon as Taiwan is ready to go forward itself; is that correct? And there is no hesitation on that? This is not an issue?

MR. KEITH: Sir, if what you're asking me is that original package that we're talking about that's the subject of--

CHAIRMAN CO-CHAIR BRYEN: Yes, that's what I'm talking about. That's exactly what I'm referring to.

MR. KEITH: --the special defense budget, which, of course, Taiwan is shifting a bit, at least in its internal politics. It's taking things in and out of that package, and it's unclear what the sequence of events will be as far as Taiwan's

decision or determination to proceed with elements of that package.

CHAIRMAN CO-CHAIR BRYEN: Yes.

MR. KEITH: But if your question do we stand by that original package and are we intent on-

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CHAIRMAN CO-CHAIR BRYEN: That's precisely my question.

MR. KEITH: --selling that package to Taiwan, the answer is unequivocally yes.

CHAIRMAN CO-CHAIR BRYEN: It's important for us to have that marker clearly in the record, and I appreciate your response.

MR. KEITH: Yes, sir.

COMMISSIONER WORTZEL: Thanks very much.

MR. KEITH: Thank you, Commissioner Wortzel. Commissioner Becker.

COMMISSIONER BECKER: Yes, thank you. I wasn't going to make any comments on this. I was listening very intently to my colleagues, but I have to say I disagree with my colleague on the left. When we talk about independence or we talk about

freedom with Taiwan, they don't have to be unified with China, they don't have to be not unified with China. We talked about the status quo. I remember the status quo for years and years, and this is what we're advocating.

But the thing that we're leaving out of this is America's strategic interest in all of this. I mean we talk about China and Taiwan getting together like if they got together peacefully this would be something very good. I don't know whether it would or not. We have strategic interests. We've had them since World War II in the South China seas. The sea lanes have to be kept open for Japan and for South Korea. It has to be kept open for Indonesia and Thailand, Vietnam, Singapore.

We can't abandon this. We should not abandon this, but we don't talk much about our strategic interest in what takes place. And I think we have to have a greater focus on this and I think we should stand tall. We fight for democracy all over the world in many, many, many wars. We've always taken the high ground. How do we walk away

from the only democracy down there? I don't think we do. I just want to put this on the record.

MR. KEITH: Mr. Commissioner, thank you. In fact, I don't think we disagree.

COMMISSIONER BECKER: I didn't ask a question there. I'm sorry. I should have thought of one to ask.

[Laughter.]

CHAIRMAN D'AMATO: He can make a comment, though, can't he?

COMMISSIONER BECKER: Do you agree?

MR. KEITH: Sir, I think we agree completely that the first statement I made was on the importance of the larger American interest driving our relationships both with Taiwan and with the People's Republic of China, and I think you would hear everyone from Secretary Rice on down in my building tell you that everything we should be doing in Asia should be grounded in American interests. That's what we're engaged in. That's our job as diplomats is to advance the American interest.

I think it's important to note that no one to my knowledge has suggested or advocated that we walk away from Taiwan. I think our absolute obligation to fulfil the requirements of the Taiwan Relations Act, which is something we take on voluntarily, not because it was imposed in 1979 but because it's in our larger interests and because we have a history with the people of Taiwan, an imperative, to maintain those ties.

I think that ensures that we won't be walking away from this problem, but what we do say is that the Taiwan people should have the lead. We're not in a position, it seems to me, to impose a solution, a particular solution. That's why we stand for a solution that's arrived at between the people on both sides of the Strait, and that we stand against any solution imposed by coercion. So that's, I think, the bedrock of our position as enunciated in the Three Communiques and the Taiwan Relations Act. In fact, sir, I think we agree.

COMMISSIONER BECKER: If I could add--could I just make one more short comment on this? At the

end of World War II when MacArthur reined supreme in that part of the world, he made a statement once and said that Formosa--that was Formosa then, right--is the largest unsinkable aircraft carrier in the world and we should strive to keep that. And--okay--that's good.

MR. KEITH: Thank you, sir.

CHAIRMAN CO-CHAIR BRYEN: Thank you.

COMMISSIONER BECKER: Here's the question.

CHAIRMAN CO-CHAIR BRYEN: What question?

COMMISSIONER BECKER: My colleague just passed it to me. If Taiwan would vote for independence, would we support it?

MR. KEITH: Sir, the president has enunciated very clearly our position on that. And this goes back to our original Joint Communique in 1979 and the language of which I'd be happy to get to you if you don't have it.

COMMISSIONER MULLOY: I have it.

MR. KEITH: But through seven administrations, we've been, you know, very clear in our position with regard to that question. This is

an issue that I think the people of Taiwan would have to work out with the People's Republic of China. We're not trying to predetermine an outcome, but at present, as a unilateral act, we are opposed to any unilateral change to the status quo, and that's a position that comes based on the larger interest of the American people.

That doesn't preclude any outcome at all. It neither rules in nor rules out any eventual outcome that can be arrived at by the people on both sides of the Strait.

COMMISSIONER BECKER: Hang tough.

MR. KEITH: Yes, sir.

CHAIRMAN CO-CHAIR BRYEN: Commissioner Donnelly.

HEARING CO-CHAIR DONNELLY: Thank you, Commissioner Chairman. I also have probably more of a statement, and it would probably be directed more at my fellow commissioners than at the witness, but I invite the witness to correct me or to respond as he sees fit.

First of all, I feel obligated to unburden myself about the question of Taiwanese independence. It is my understanding of our policy that we really take no position about Taiwanese independence. The one-China policy is an observation of fact going back to the original statement that Chinese on both sides of the Strait, or people on both sides of the Strait, believe that there is a single China. That was an observation made at a particular time and place, and it's quite possible that were the people on opposite sides of the Strait to agree peacefully that there was one China and one Taiwan, that would be just fine with us, as long as the issue were resolved peacefully.

In fact, as Commissioner Becker has pointed out, that would suit our strategic interests even better. So we are not opposed to Taiwanese independence; we are worried about the method by which the issue is resolved. That's my understanding.

Secondly, if we can accuse Taiwan of building Chinese comprehensive national power by



investing there, we can make the same accusation about K-Mart or Microsoft or a lot of other American--

CHAIRMAN D'AMATO: Wal-Mart.

HEARING CO-CHAIR DONNELLY: --Wal-Mart-- American companies in profusion. Another thing is the question of arms sales. It's my understanding that previous sales packages and other exchanges of both weaponry and expertise are proceeding sort of on course and indeed, I think as you pointed out in your testimony, some of the more important kind of software aspects that Taiwan needs to improve the quality of its defenses and also to firmly establish civilian control of what was a one-party military not so long ago are actually proceeding quite positively.

So the sort of broader military-to-military relationship between the United States and Taiwan is actually far larger and possibly healthier than the controversy over the special budget would suggest.

However, there remains some problems that are our primary responsibility it seems to me. In

particular, two things that are of deep concern to me are the question of general officer visits to Taiwan. You yourself just mentioned that the PACOM Commander visited the mainland. It seems to me quite perverse that we disallow our senior theater commanders and his staffs and other commanders in the region from essentially visiting the front lines, a little bit like preventing the NATO commander from visiting the Fulda Gap during the period of the Cold War. This is a self-imposed or a self-inflicted wound not just by this administration but by past administrations, and I would strongly urge the Commission to express our feelings and to support legislative already introduced in Congress to lift that or to change that policy.

And finally, and by way of footnote, I lament the actions taken by the administration in regard to the Monterrey talks with Taiwan which have been ongoing for more than a decade, have been a central aspect in improving Taiwan's, you know, management of its defenses and sort of intellectual modernization of its defenses. Those talks were

initially scheduled for cancellation this year. They were ultimately deferred simply as a way to placate Hu Jintao and to make that potential irritant go away during the planned visit here, and so if we want to criticize Taiwan for its failures to modernize its defense posture the way we would like it to, we, I think, have to take cognizance of our own role and not put additional roadblocks in the way of this process if we really want it to go forward.

So again, more of a statement than a question, and I again appreciate everybody's indulgence.

CHAIRMAN CO-CHAIR BRYEN: Commissioner Dreyer has a follow-up.

COMMISSIONER TEUFEL DREYER: Yes, I do. I am aware that what we have said in the past frequently is that we do not support Taiwan independence. This does not mean we are opposed to it. The Chinese government time and time and time again has badgered us into saying, trying to say we oppose it. Sometimes officials misspeak--American

officials. This bothers me tremendously, and I again, as a statement, would urge you to take back to your colleagues the notion that if the United States opposes or even doesn't support Taiwan independence, this makes Taiwan the only country in the world that United States opposes self-determination for and this is scary to me because the United States itself was born of the self-determination of a people and Britain was certainly a much nicer colonial power than the People's Republic of China would be.

Thank you.

MR. KEITH: You make an important distinction, Commissioner Dreyer, and I will certainly take that back.

COMMISSIONER TEUFEL DREYER: Thank you.

CHAIRMAN CO-CHAIR BRYEN: Well, everybody is satisfied? Okay. I hope you didn't mind the questions--

MR. KEITH: Not at all.

CHAIRMAN CO-CHAIR BRYEN: My colleagues sometimes make speeches, but it does, there is a

growing concern, and I think one of the elements of that clearly is the arms build-up and the qualitative change that seems to be happening in that arms build-up, and when you have that kind of asymmetry that you have, it doesn't lead to good things historically. And I think this is something that is a great concern of all the commissioners. I think I speak for everybody on that, that there's just a real worry that China will make a mistake for any number of potential reasons, and the situation will be one that we can't really influence or control satisfactorily.

So I don't expect you to respond to that point, but I do think it is something that the Commission feels strongly about and will certainly be reflected in our report.

MR. KEITH: Sir, if I may, I would like to respond.

CHAIRMAN CO-CHAIR BRYEN: Please.

MR. KEITH: I think we certainly agree that the uncertainties created by China's military

modernization bear close watching and I think we agree with your concern for the scope and direction.

The one point I would make is we, the administration, don't see the Cold War template as the one that we ought to adopt. I don't mean to suggest that that was imbedded in your remarks, but this is an issue out there that I think you need to hear from the administration on, and while we need to deal with the uncertainties that are created by China's increased prominence on the scene, I don't think we view a return to a Cold War approach is the approach that would be most productive.

CHAIRMAN CO-CHAIR BRYEN: Well, as you noted, we have a huge trading relationship with China which was not the case with the Soviet Union.

MR. KEITH: Yes, sir.

CHAIRMAN CO-CHAIR BRYEN: It's quite a different environment in that respect on the commercial side, on the political side, too, I would guess, but there sometimes is in these things a dynamic caused by the acquisition of weapons that grows beyond the control of the political people,

and this is, I think, we've seen evidence, and I think all our commissioners comment we've seen evidence from time to time of poor communications between the Chinese leadership and their military, and we've seen situations get out of hand.

And it's one thing when there is relative military balance. It's a totally different story when there isn't, and this is, I think, really one of the great fundamental concerns I have, and I believe others here have, too. We thank you very, very much for joining us today.

MR. KEITH: Yes, sir.

CHAIRMAN CO-CHAIR BRYEN: You've lived up to your reputation absolutely and it was a delight having you. Thank you, sir.

MR. KEITH: Thank you, sir. Thank you all.

CHAIRMAN D'AMATO: And we'll take a five minute break before the next panel begins.

[Recess.]

CHAIRMAN D'AMATO: The hearing will come back to order. We'll turn over to this panel to Commissioner Donnelly.

HEARING CO-CHAIR DONNELLY: Thank you, Mr. Chairman. Our third panel this morning is on Chinese Military Modernization and Force Deployments. I think already this morning the Commission has indicated how vital this interest is to us. China's economy is growing, and even at a relatively modest slice of GNP for defense, that clearly indicates that Chinese defense spending is increasingly significantly.

Importantly, the focus of Chinese military modernization is of concern to the Commission, as you have heard. We're still hoping that Laurent Murawiec will join us. There was some confusion about the location this morning, but I think we'll proceed anyway.

We've got a very strong panel, and I will refrain from reading everybody's CV in detail, but I would like to introduce Rear Admiral Eric McVadon, who was the defense and naval attache at the American Embassy in Beijing from 1990 through 1992 when he retired from the Navy, and since then he's worked extensively with the U.S. policymaking and



intelligence communities on Asian affairs and, in particularly, Chinese military matters and issues involving the region.

Admiral McVadon wears almost as many hats as I do these days, as part-time Director of the Asia-Pacific Studies for the Institute for Foreign Policy, also works with DynCorp and a variety of other associations which will be available in the transcript. Let's put it that way.

Also joining us Dr. Joan Johnson-Freese-- I hope I have that pronunciation correct--who chairs the Department of National Security Studies at the Naval War College. She's a political scientist and is focused in her work on technology and space programs, technology transfer issues, export control, served on the National Research Council for Space Studies and Congress Advisory Panel for Space Launch Capabilities.

And thus, that particular area of expertise is a crucial part of Chinese military modernization, and we look forward to her testimony.

Dennis Blasko served for 23 years in the U.S. Army as an intelligence officer and a foreign area officer specializing in China, was an Army attache in Beijing in the early 1990s and in Hong Kong in the mid-'90s. And has spent a lot of time with infantry units around the globe, worked on the Army Staff and the NDU War Gaming and Simulation Center.

All told, we have an impressive variety of experts with us, so let's hear from them. Why don't we just go down the batting order and, Admiral McVadon, if you will start us off. Thank you very much.

REAR ADMIRAL McVADON: Thank you, Commissioner Donnelly. Happy to be here. Let me start by saying that after more than 15 years of dealing with the China-Taiwan issue, I cautiously accept Chinese assertions that they prefer a peaceful resolution. However, it's clear that if they feel they must act, Beijing is more serious than ever about rapidly subduing Taiwan and

threatening the U.S. ability to intervene promptly and effectively.

The scope of the ongoing surge of modernization in the PLA naval, air and ballistic missile forces, as Congressman Simmons so well described this morning, is roughly analogous, and I do not say this lightly, to the Chinese acquisition of nuclear weapons in 1964. Neither can be reversed nor ignored.

We're looking at a rapidly emerging new PLA, but one that is narrowly focused on rolling up Taiwan in a matter of days and confusing, deterring, delaying or, failing all that, defeating U.S. intervention, thereby presenting us with a fait accompli.

China does not want a war with the United States, but it's deadly serious about Taiwan. Here is the concept that it's clearly revealed by the forces the PLA is acquiring and the PLA's doctrinal writings.

First, there is an emerging virtually unstoppable capability to attack Taiwan with the

many hundreds of very accurate, mobile medium and short-range ballistic missiles and the new land attack cruise missiles. These missiles would easily saturate any conceivable missile defenses and disable Taiwan's air defenses, air fields and command and control facilities.

Special and Fifth Column forces and information warfare would play important roles. Massive air attacks on a largely defenseless Taiwan then would follow. Powerful new PLA Navy forces would make very short work of the Taiwan Navy. Amphibious and airborne forces, probably in smaller numbers than generally thought, to reduce strategic warning among other things, then could secure beach, seaport and airport lodgments, to permit the introduction, essentially unopposed, of follow-on forces in large numbers and to a Taiwan that would be cowed, chaotic and demoralized.

There is a reasonable prospect that this concept could work or that Beijing will think that it will work.

Second, and equally important, is the budding capability to thwart U.S. intervention. This capability is layered, diverse and appropriately redundant, a precisely focused major modernization of specific components of the PLA.

The concept encompasses an overarching effort to disrupt U.S. command and control, surveillance and intelligence through actions against our computer networks, satellites and communication nodes. It's not clear how well the PLA might do this, but they certainly will try very hard.

The most alarming aspect of this concept, and something that has not been mentioned yet here this morning, is the very rapid move toward development of ballistic missiles with maneuvering warheads that would not only be able to defeat missile defenses and hit U.S. bases in the region, but could in a few years threaten ships at sea, cleverly circumventing otherwise superior defenses and hitting our carrier strike groups.

Problems remain. But the Chinese will likely soon solve the problems involved in hitting a moving target with a ballistic missile. That is a big deal.

Another daunting feature of this layered concept is expected to be operational much sooner than the ballistic missiles. The eight new Kilo-class submarines now being delivered to China from Russia, as once again as Congressman Simmons described, are armed with what some describe as the world's best anti-ship cruise missile, the long-range, supersonic, submerged launch, sea-skimming SS-N-27Bravo Sizzler.

A new series of Shang class nuclear powered attack submarines, an impressive array of indigenous Song and Yuan-class modern and quiet conventional submarines, and a large number of other submarines compound the anti-submarine warfare problem, and, of course, that's what I spent most of my military career doing, was chasing Soviet submarines.

These initial waves of ballistic and anti-ship cruise missiles would be intended to degrade

air defenses and prevent flight operations so that follow-on attacks might be conducted.

So what I've described is just the opening chapter. The PLA Navy has new indigenous FB-7 maritime interdiction aircraft, Russian SU-30MK2, multi-role fighters, and a new version of a long-range B-6 bomber all with potent anti-ship cruise missiles that can reach hundreds of miles or more in follow-on attacks and probably do so successfully after the air defenses have been degraded.

The PLA Navy is putting to sea a stunning fleet of modern, new and upgraded destroyers and frigates. At the top in firepower are the Sovremennyy destroyers, and there will soon be four of them in China's hands from Russia, with long-range, supersonic, highly evasive anti-ship cruise missiles similar to those for the new Kilo submarines designed to defeat our Aegis defense system.

Several classes, not ships, but classes of modern Chinese-built combatants have very lethal

subsonic anti-ship cruise missiles plus increasingly capable air defenses.

Well, I've given you on a sample of this modernization surge, and as a backdrop to all this conventional stuff, China is also building a more modern ICBM force so that U.S. national missile defenses will not neutralize China's nuclear deterrent.

There is no question that the PLA is assembling this alarming combination of missiles, ships, submarines and aircraft. There is, however, considerable question about whether the PLA could coordinate, command and support with intelligence and communications a simultaneous, two-pronged, major campaign against Taiwan and U.S. forces

My estimate, and only that, is that this new PLA would largely succeed against Taiwan and falter against U.S. forces because the inexperienced Chinese military would not be able to cope with the complexities, unknowns and countermeasures they would face.



This expectation of ineptness is, however, hardly sufficient to bank on, and remember, the Chinese expect to hold us off only long enough for Taiwan to cry uncle before Uncle Sam gets there. They expect to avoid all out war and its likely unfavorable outcome for them.

In formulating a response to this new PLA, I think we, and by the way, Taiwan's leaders need, first, to appreciate anew Beijing's obsession with the Taiwan issue. I do not, of course, suggest that Taiwan abandon hope or last long enough for an American intervention in order to prevent an otherwise an inevitable Chinese victory. I do suggest that we persist in demanding a peaceful resolution and that we adroitly heighten Beijing's concern that an attack on Taiwan would put at serious risk its international standing, trade, foreign investment in China, infrastructure and military forces.

In short, the achievements of which modern China has the right to be most proud, it's quarter century of unprecedented economic growth and

enhanced living standards would be sorely jeopardized. Chinese say that when Taiwan is the issue, it does not matter. I would hope, however, that were China's leaders contemplating an attack on Taiwan and a confrontation with the United States, that these profound perils to China's future would greatly influence the debate.

We need to reinforce China's preference for non-military solutions to all its security concerns including Taiwan. Having said that, my hope, and I hope it's not an altogether unrealistic one, is that the China we say we prefer, open, prosperous and fully engaged with the U.S. and the world, coupled with the growth of cross-Strait ties will eventually make a military solution seem to Chinese leaders a foolish anachronism.

Meanwhile, we find ourselves distracted by the war on terrorism in Iraq, struggling with how to accommodate to a profoundly threatening new PLA, a military acquired paradoxically by a China with which we have improved relations and many important interests in common. This is a time for us to avoid

hostile bluster and give greatly increased reflective attention to Sino-American relations. No other international relationship is more important or promises greater risks or awards, depending on how well Washington and Beijing and, yes, Taipei can manage it.

Thank you.

HEARING CO-CHAIR DONNELLY: And thank you, Admiral, for a very succinct and excellent testimony. Dr. Johnson-Freeze, the Admiral set the bar very high.

DR. JOHNSON-FREESE: He does indeed. Always.

HEARING CO-CHAIR DONNELLY: So I look forward to you to leap over it.

DR. JOHNSON-FREESE: Members of the Commission, thank you for inviting me here today to participate in this hearing on China's military modernization and cross-Strait political and military relations and specifically to provide you with information on Chinese space activities.

In my written testimony, I attempt to address four questions, and what I will do now is just basically review those and my basic conclusions on those.

First, what are Chinese space capabilities? Second, what intents motivate Chinese space activities? Third, what capabilities are specifically relevant to conflict scenarios related to Taiwan? And fourth, what are key considerations for the U.S. government in responding to these Chinese space activities?

Regarding capabilities, China's space program is broad, still limited but growing, both helped and hurt by its internal organization, and motivated by the multiplicity of benefits, economic, political and military derived from space generally and dual-use space technology specifically.

And the fact that 95 percent of space technology is dual use is one of the key considerations in any look at Chinese space capabilities and their intents.

Regarding intended utilization of military assets, China is clearly developing space technology as part of military modernization to support their foreign policy goals with maintaining one China their clear fall on their sword issue. Generally, China is developing technology for increased C4ISR capabilities.

Beyond that, it is unclear they have specific goals in mind. Determinations of intent are hindered, I would suggest, because of both the deliberate Chinese opaqueness and an apparent difficulty in the U.S. to interpret literally and substantively Chinese information sources, something that concerns me greatly and I hope we improve on in the future.

Regarding use of space capabilities in Taiwan specific scenarios, improvement in Chinese missile capabilities that Admiral McVadon spoke of I believe are the key. Beyond missiles, space is highly relevant, certainly for targeting for C4ISR capabilities, command and control, though likely not determinative regarding battle space awareness.

China's potential ability and willingness to use assets to deter, delay or disrupt third party--read U.S.--intervention must also be considered as it, too, is key.

Ground-based lasers appear the most technically feasible approach to temporarily hinder U.S. space assets and hence inhibit U.S. forces. They offer China the highest plausible deniability and the lowest risk in terms of proportional response.

Other approaches, as Admiral McVadon already said, are extremely high risk and more technically challenging. China is taking a hedging approach to technology development to allow choices in the future according to determined risks and benefits.

In developing appropriate responses to Chinese space activities, in my opinion, the U.S. government should pay particular attention to four key issues:

One, that the United States will not be able to outspend China on technology development

indefinitely. That approach, while it has been predominant and effective so far, will not carry us 15 years out.

Second, since other sources are willing and anxious to sell China dual-use technology, technology transfer to China might be controlled but not denied. While the other technology may not be as good as that from the United States, it's good enough.

Third, the supremacy of U.S. space hardware is a necessary but not sufficient approach to space control.

And finally, China is at a crossroads with U.S. space leadership imperative toward shaping China's ultimate definition of intent for its space program in the future.

HEARING CO-CHAIR DONNELLY: Thank you very much. Mr. Blasko.

MR. BLASKO: Thank you for the invitation to be here. Today, I'll focus on training for the nearly 70 percent of the PLA found in the ground forces. My statement is based almost exclusively on

reading the Chinese press. I've used no classified information nor have I observed PLA training or interviewed PLA officers since 1999.

Nonetheless, I believe it is possible to understand trends in training content from open sources. However, it is less feasible to make judgments about capabilities.

Let me assure you that I read the Chinese press with caution and view skeptically reports that such an operation was conducted in 45 minutes or all missiles hit their targets. Nevertheless, careful reading of the press tempered with military experience can provide useful insights.

For example, I see little evidence of training in or doctrine for what we know as close air support. In general, my impressions of ground force training are, one, the PLA is a good student of other militaries and understands in theory the complexities of modern war.

It has developed a doctrine adapting these lessons to China's unique conditions. But most PLA training is still relatively rudimentary in nature.



The PLA understands there are no silver bullets or shortcuts to combat effectiveness and has a two-decade long plan to continue its modernization.

However, if ordered before that time, the PLA will obey the command of its civil leadership, utilize its best units and with civilian support attempt to achieve the missions assigned.

I am certain the PLA assumes the mainland will be the target of long-range precision strikes in future conflicts. In April 2000, the Army paper highlighted recent training priorities; amphibious operations for Nanjing and Guangzhou military regions; long-range mobility and rapid reaction for Beijing, Shenyang and Jinan MRs; and cold weather high altitude operations in Lanzhou and Chengdu.

Training was to intensify on air defense, information war, amphibious landing, joint operation and the new three-strikes, three defenses.

After 2001, anti-terrorist, nuclear, chemical, biological defense and disaster relief were added. Reserve units and militia forces have also increased their training tempo. Civilian

support is integrated into PLA operation using the National Defense Mobilization Committee system.

People's War is still considered a magic weapon for the weak to defeat the strong. Joint and combined arms training conducted in remote locations is common in all MRs. Among the most frequently practiced tasks are rapid deployment, air defense, camouflage and NBC defense. As electronics and communications capabilities have increased, information operations have been highlighted.

Each military region has established a combined arms training center into which units rotate for training and evaluation. Four major amphibious training areas are located on the east coast. Marines practice on the Leizhou peninsula and from Peace Mission 2005, we know that Weibei in Shandong can be used for amphibious training.

Individual units also have local training areas and firing ranges often including inland amphibious facilities. Nonetheless, commanders recognize the need for more training areas. PLA leaders see a gap between actual training and their

goals. Perhaps the best illustration of this was the creation of the term "integrated joint operations" in 2004. This term reminds commanders that all types of units and battlefield systems must be incorporated into operations.

In other words, it's really joint operations. Large-scale amphibious operations were not a major emphasis in the first 15 years of PLA modernization. Now, entire brigades and divisions deploy for up to three months for training controlled by group army or MR headquarters.

Nanjing and Guangzhou MR units have conducted the majority of amphibious training with lesser amounts in Jinan, Shenyang and Beijing MRs. I estimate approximately 22 or more maneuvered divisions or brigades have trained to some extent for amphibious operations.

These numbers do not, however, necessarily represent the size of a force that PLA could put together for an amphibious campaign, but individual divisions and brigades are the building blocks of larger operations. Anti-terrorism training has been

elevated in priority for the PLA, PAP, militia and civilian police forces and is conducted all over the country.

The Air Force's 15th Airborne Army appears now to conduct more battalion and regimental drops to seize key terrain such as ports or airfields, but most airborne exercises seem to be conducted independently without integration into larger joint training scenarios.

Special operations units were established in each military region in the '90s. Integration of SOF into larger joint exercise apparently appears to be in the exploratory phase.

Army units throughout the country also prepare for missions appropriate to local situations including border and coastal defense and disaster relief. Functional training supervised by the political, logistics and armaments systems is emphasized.

PLA papers have recently provided a Chinese perspective on training in perhaps the two most important military regions. In 2004, Nanjing MR

reported remarkable progress in building combat and technical support capabilities, but said units still lag behind actual war requirements.

A conference on training pointed out several procedural shortfalls in the training itself. In 2003, the region reported night training as a weak link. In 2004, Guangzhou reported a gap between the overall quality of personnel and requirement to fight and win information wars. In 2005, command staff training was identified as a weak link.

From these types of reports, it is understandable why the PLA has established a two-decade long goal to improve the quality of personnel. Success on the modern battlefield depends more on these personnel and the rigors of their training than on the new equipment recently introduced.

As always, I remain open to change my conclusions based on new information and I encourage further examination into these complex topics. Thank you.

HEARING CO-CHAIR DONNELLY: Thank you, sir. We seem to have had a real alignment of the planets here. Dr. Murawiec, welcome, and also Senator Thompson, welcome to you. I take it this is a good sign for Judge Roberts.

[Laughter.]

COMMISSIONER THOMPSON: One way or the other.

[Laughter.]

HEARING CO-CHAIR DONNELLY: Or you're abandoning him in his hour of need, as the case may be.

[Laughter.]

HEARING CO-CHAIR DONNELLY: Laurent, the microphone is yours if you're prepared. Okay. Ready. Good.

DR. MURAWIEC: Thank you very much. I'm afraid that I will not be able to go into the depths of Chinese military organization the way Dennis just did. I would like to tell you the results of research I carried out notably for the Office of Net Assessment on the question of the Chinese way of

war, and I would perhaps say that one of my extremely involuntary qualifications is that my book on the Revolution in Military Affairs was translated by the PLA and published two years ago with a run of 7,000 copies in Beijing, which I think means that the privates won't read it, but some other people in the PLA certainly already have.

COMMISSIONER TEUFEL DREYER: Did you get any royalties?

DR. MURAWIEC: I actually got \$500 which was quite an extraordinary thing. I wish all of the other authors on China to get that much. Be that as it may, if I consider China, several thousand years of Chinese statecraft consider that China by right--it's like the divine right of kings--is the center of the world, as her very name bears witness, and China demands to be kowtowed to accordingly.

Now, no nation ever grew to a size of about 3.5 million square miles by being peaceable or pacifist. Otherwise you're Luxembourg. Offensive and aggressive warfare are as much part of China's

historical inheritance as that of any other nations and more so than Luxembourg.

Now, over the last 200 years, China's military performance, however, is feeble at best. She lost virtually every single hot war she engaged in. However, in her own mind, and according to the aura she projects, China is invincible, which I think is a very important paradox for us to deal with.

China went to war against its neighbors by choice, against most of its neighbors, and in most cases using war as a normal and principal instrument of policy. Given China's extraordinary ascent, her rise inexorably disrupts many status quos and her ambitious fan the flames of conflicts.

I do not believe that a major war with the United States is inevitable, but conflict is already there as China is quite forcibly seeking her place in the sun.

Now, how do Chinese look at war? Is there a distinctive Chinese way of war? Do Chinese go to



war the way Europeans, the way Arabs, the way South American Indians, the way Eskimos go to war?

I think there is a distinctive Chinese manner of thinking about war and practicing it. Picture the traditional Chinese battle. Picture first the traditional European battle. Whether it's Gettysburg, a great place in Europe, or Kursk or Marathon or anything in the history of European warfare, two masses of heavily-armed men clash in brutal shock against one another. A Chinese battle traditionally is gigantic volleys of arrows that fly that are hurled from either side by the thousands.

And the first side that cracks because too many people have been killed or maimed and have fallen, the first side that cracks runs, at which point its soldiers are slaughtered in pursuit. Action, in other words, occurs at a distance, not hand to hand, not through shock, not as in the Western or in the Japanese tradition, less anybody thinks this is something special to the Asian soul.

Battle is lost and won at a distance and so is war. This is very heavily reflected in the work

of China's premier military strategist, Sun Zi, who is the object or whose work is the object of very intensive study by the PLA.

The famous phrase, "To subdue the enemy without fighting, this is the acme of skill," encapsulates this.

Now, when you consider it on the face of it, there's very, very few cases in world history where the enemy was subdued without fighting and where that acme of skill was actually achieved. I think that what Sun Zi means is battle avoidance, indirect approach, deception, stratagem, what the Chinese call "the invisible knives."

Concretely, that means to disrupt the enemy's alliance, to deceive him, to make him spend his energy in vain so that before any engagement of forces, he will be exhausted, he will be disoriented, he'll be frightened and will not be able to put up effective resistance.

Hence, I do not expect a frontal attack on the United States for the time being, the U.S. being recognized as being superior in hardware and many

other ways. That would, at least, have to wait until China in her own mind had become the world's number one economic superpower.

Meanwhile, what would Chinese grand strategy desire? To mire its opponents in a thousand ruts and make him bleed a thousand cuts, to involve him in numerable conflicts, in order precisely to achieve what Sun Zi was talking about. And therefore, I look carefully for the Chinese political military outreach.

When I read that China just made some minor military deal with a country of Greece, in and of itself it is of extreme unimportance. In terms of pattern, it indicates this, as well as agreements with Latin America, acquisition of assets in Iran, in Turkey, in the EU, this means that the Chinese chess, what the Japanese call-- what we know under the Japanese name of go, which the Chinese call xiangqi, the aim of the game is not to take the enemy queen. It is to encircle, to paralyze and to neutralize.

Now, where does that lead us? I think, first of all, the risk of miscalculation on the part of China is extraordinary if only because the dictum, this other dictum by Sun Zi, "know thyself and know thine enemy," is something that cannot be said to be truth for the Chinese. I do not believe that the Chinese elite, the Chinese leadership, knows and understands the outside world terribly well. They know how to manipulate a lot of things but I do not believe that they have any fundamental understanding of the United States in particular.

I do not believe that they know themselves either because their political system is utterly dysfunctional. So in case of extreme internal strife in China, which could go up to civil war, but not necessarily, the leadership is very liable to play the nationalist card and God knows that Chinese nationalism is a raging tiger that cannot be left to crouch.

And that could push the Chinese leaders into an attack on Taiwan. Miscalculation again. When you read Chinese literature pertinent to the

subject, you will see that most Chinese believe that they won against Japan in World War II, and they say it and they write it. This is an extraordinary thing. They believe that they won that war. They also believe that they crushed the United States in the Korean War. This is a massive miscalculation.

I think China and the Chinese search for silver bullets all the time. This is part of the Chinese way of war. It is the shortcut to quick victory; hence, their fascination for so-called unrestricted warfare, information warfare, cyber war.

To them, I submit to you, war is a mind game. It's cy war, it's magics, it's like the Daoist warrior in the Chinese cloak and dagger movies. Now, think, the Japanese, great students of Sun Zi, invaded China and used Clausewitz, not Sun Zi, and look who won. To me, I would propose to you that Sun Zi looks very good as long as Clausewitz doesn't show up on the battlefield.

As far as we are concerned, what should we do? I think that the principle is that we ought

never to play to China's strengths, her chosen terrain, her chosen timing. I think we should always play to our own strength, terrain and timing.

Thank you.

HEARING CO-CHAIR DONNELLY: And thank you. You reinforce my prejudice that American military officers who quote Sun Zi are always on the road to ruin.

[Laughter.]

HEARING CO-CHAIR DONNELLY: We have a lot of questioners and I think Commissioner Becker requested the right to go first. So just speak away.

COMMISSIONER BECKER: I appreciate your testimony and it's pretty diversified amongst the four of you, a bit of the old and a bit of the new that we're considering. I want to put just a little bit or a different element in this--can you hear me okay? I wear hearing aid and it confuses me as to how loud I'm talking and whether you can hear me or not.

So bear with me. There's been a lot of comments in the newsprint, television, lately about a lot of non-military activities that are directed towards the United States, information warfare like the "Titan Rain," going into our data banks, both militarily and within the banking system and the stock markets, hacking, if you would.

The economy is one-sided that's allowed the Chinese to accumulate hundreds of billions of dollars of U.S. assets, currency reserves, the acquisition of our technical, U.S. high tech systems in the United States by fair means or foul, read in the library, buy it or steal it. It doesn't make any difference. Intellectual property, they put the figure now, the last I heard was \$250 billion annually, and I'm not talking about toys or dresses. I'm talking about patents and copyrights, secrets, protected interests of the United States. All of this is in conjunction with what you were talking about here about the build-up of military assets in China.

Taken together the things that I mentioned, and not military, non-military activities and the military activity, I see China building an arsenal of weapons that can be used against the United States in conjunction, one in conjunction to the other, and to be honest about it, I never connected the dots until I picked up this book here, and you mentioned the Unrestricted Warfare. It's easy to discard it, to say it's fantasy, but it deals with exactly what I'm talking about and much, much more.

The tying of military and non-military, attacking every aspect of social, economic and political life in our country, a war with no rules, no limits, no morality. They underscore blood and cruelty in order to shock the citizens in the other country. I guess you could say that's terrorism. I don't know. And while I may disagree or you may disagree with all of this, I believe we need to take a look at China's actions.

Are all of you familiar with this book? I didn't want to just stand there holding that. I would challenge anybody if they didn't, if they just



pushed it aside and didn't even look at it. This was written by two high ranking officers of the PLA Army, both of them colonels. It was printed by the PLA printing operation and disseminated throughout the PLA ranks.

So there is some degree of credibility in this, and I think we need to look at this as a part of China's overall strategy in dealing with the United States. My questions--I have two very simple on this--do you think that we should view the actions of the Chinese, military and non-military, as creating an arsenal of war and isn't this all a part of a coordinated plan that threatens the United States? And I would open that up to all of you. At your pleasure.

HEARING CO-CHAIR DONNELLY: Step up to that one.

DR. MURAWIEC: I think it's very important, sir, to consider that in Chinese statecraft, there is no border whatsoever between political and military action. In the Western tradition, we declare war. There is no equivalent in Chinese

tradition. You don't declare war. You go to war. And going to war is not something that is restricted to military affairs. It is an integrated conception.

Traditionally, in Chinese history, the party always led the guns, meaning the Mandarin always led the generals. And the pattern of activity that you describe is of that order.

Now, as far as the book you held up is concerned, I think that to some extent that book is a lot of wishful thinking on the part of its authors. It shouldn't lead us at all to neglect or to rule out its importance because if I have wishful thinking, I will do what I wish or I will try to do what I wish.

So it indicates a direction of thinking, a direction of organization, a direction of organization, a direction of action, and it's also, I think, if not a training manual, it's a great pep talk for the troops. It tells us, if you allow me, you look at German general staff literature prior to World War I, you will find also the same rampant

dreams, some of which are utterly wishful and many of which were actually realized.

So it tells us whatever the ulterior motives present in that book and I think it's like many things in China, you got to look at the plot within the plot within the plot and then some. And there are many motivations in that particular book, I think. But I think we should indeed take it seriously, and I would think, yes, there is this, the coordinated plan, which is based on China's self-conception.

If you call yourself, when you call yourself a Chinese, you call yourself a man of the country of the middle. Middle of what? Middle of the world. So if you and I are the middle, and everybody else is not the middle, what are we? We're the corners. We're the barbarians in the corner, and the barbarians in the corners ought to pay obeisance and loyalty and tribute to China.

So, in that sense, I do think, yes, it is a coordinated plan. I personally, and many will disagree, would not look so much at the numbers of

missiles and this and that. This is a factor; I don't want to dismiss it. Not so much the numbers, but what is the intent?

It seems to me that we've learned, and especially in recent times, that it is not necessarily the hardware, but the guy who is holding the hardware and the head of the man who is holding the hardware which matters.

REAR ADMIRAL McVADON: May I add a quick comment? I don't want to be an apologist for the Chinese, but it is necessary for us to look at it from their perspective I think to comprehend it a little better.

The Chinese, of course, have many, many complaints about us, superpower abusing its position, a hegemon, all of those sorts of words that they use very frequently, and for the most part they believe them. In a book like Unrestricted Warfare and that sort of thinking, you find people who are coping with this situation where they, in fact, believe that the U.S. is a potential adversary and is working against them, and then they see that

we're a much superior military force, and so they devise the ways, as you described, to somehow be able to defeat using all means available this superior force.

So when you sit down and you're at the National Defense University in Beijing, what you do is, yes, you devise all the ways. It doesn't mean they won't use them, but I think it needs to be put in perspective that they are talking about--they're certainly not intending to start a war with the United States but confronted with that situation, how does one then cope with it when you are the inferior force?

HEARING CO-CHAIR DONNELLY: Thank you very much. Before I recognize Commissioner Wortzel, I just want to say to everybody, we've got a full roster of people who want to ask questions. So let's try to be concise. I would never do this myself, but---

[Laughter.]

HEARING CO-CHAIR DONNELLY: Commissioner Wortzel.

COMMISSIONER WORTZEL: I will be as concise as I can. I have a question for Dr. Johnson-Freese, and I want to draw you out a little bit on space warfare and anti-satellite technologies. I'm going to start out quoting Mark Stokes from his 1999 monograph on China's Strategic Modernization:

"Chinese aerospace analysts view ground-based high powered lasers able to degrade or destroy satellites at all altitudes including medium and geosynchronous orbits as an alternative to kinetic kill vehicles. Directed energy ASAT weapons are touted as the wave of the future."

Now, Mark backed that up with research from Chinese journals on electronic lasers, from Honkin Chingbienjo [ph], or aerospace information research, China astronautics and missile abstracts, and the Journal of Solid Rocket and Motor Technology published by China, pretty good research.

Your written testimony is a little bit dismissive, in my view, of China's capabilities and intentions there. You seem to support the position of the Union of Concerned Scientists that were

looking at a guy who published a little article in the newspaper about space warfare and I know you cite Mark, but Mark's research is certainly very good.

So I'd like to move from the theoretical discussions and vulnerabilities analysis into capabilities and intent, and see if you can talk about when you think China will move to advanced research and development in space warfare and what could they do today in terms of space warfare if we had a conflict in the vicinity of the Taiwan Strait or the western Pacific to act on what they assess is America's greatest vulnerability?

DR. JOHNSON-FREESE: Well, thank you for the question.

HEARING CO-CHAIR DONNELLY: If I may just toss in one more thing, ask you to talk also about the issue of electromagnetic pulse in this regard which has gotten a lot of press and I'd just appreciate your--which I think is apropos to this issue. I'd be interested.

DR. JOHNSON-FREESE: Well, thank you for the question. I know you've written on this considerably yourself so I can understand certainly the interest of yourself and the Commission. I don't think I significantly differ from Mark. There's a couple points there. Certainly his research--I don't question it at all. The Chinese I think are hedging on all technologies, both ground-based lasers and kinetic kill.

My point was, I think, from a political plausible deniability. Nobody is going to buy that there was an accidental satellite hit coincidental with a problem in the Taiwan Strait. So I think if the Chinese are trying to buy into plausible deniability, a ground-based laser to temporarily disrupt U.S. satellites would be far more plausible. In terms of technical capabilities, I have no doubt whatsoever that they are working on both.

I think the problems with any kind of--and here comes the problem again of dual use technology. The fact that they are working on small-sats, does that inherently mean that they are developing an



active ASAT program? Not necessarily since countries from Nigeria to Britain, et cetera, are also working on small-sat capabilities.

But does that mean they are working on the technology? I think they certainly are. This again brings in the issue of sources. The Union of Concerned Scientists--I am very concerned that we-- I think the U.S. government has the capabilities, the need to pay very, very careful attention to sources. And that for two years in a row for the Defense Department, for the Pentagon report on China to cite the parasite satellite, which is then refuted, apparently quite easily, is I think disturbing.

We need to pay closer attention to these sources if we're going to use them for planning purposes. This more recent example of citing apparently a very junior woman faculty member at a Chinese field artillery training facility that is now closed as evidence that they are working on ASAT program for fielding is, again, I think another

example of the kind of information we shouldn't be using. It does not serve anyone well.

But in technical capabilities, are they working on kinetic kill? I'm sure they are. I think the fact that they are building a new launch system to potentially give them the mobility that they would need to launch on demand pairs up with the small-sat capabilities.

The Chinese, and I've heard the word "schizophrenia" this morning, and I think mirror imaging fits as well. I can't tell you how many times Chinese will ask me what part of the coordinated U.S. plan are hyperkinetic rod bundles, you know, hyperkinetic kill rod bundles? What part of the plan are you going to use rods for God for?

They wonder, too, when Air Force personnel talk about XSS-11 gives the U.S. an ASAT capability, but, no, we don't have a space weapons program. So I think there's a lot of misinformation on each side that potentially there could be miscalculations based on, and that was my point. I agree with Mark Stokes that they are working very hard on all

aspects and they are hedging, but I don't think they have made the decision yet as to deployment, and I think a lot of that depends on what they try and interpret from reading our tea leaves.

COMMISSIONER WORTZEL: Thank you.

DR. JOHNSON-FREESE: Oh, EMP. This is an area where I think the more hardware China puts in space, the less inclined they will be to go that route. Like everyone else, EMP is nondiscriminatory. So I think this is one of those good news/bad news situations. China putting hardware into space--is that good or bad? Well, it might be bad in terms of the capabilities that it yields. It might be good in terms of their disinclination to use EMP.

HEARING CO-CHAIR DONNELLY: Chairman D'Amato.

CHAIRMAN D'AMATO: Thank you very much, Mr. Chairman. And thank you very much for the panel. I think this is very, very interesting testimony and there are some contradictions in it, I think, too that we have to grapple with.

I'd like to address my question to Admiral McVadon. I also served for several years in the Pacific as an ASW officer, big ocean, and it's very clear that the Chinese have been attempting for many years now to try and figure out a way to deter, make more complicated or even defeat American battle group operations in defense of Taiwan. It seems to me they've been focusing on that.

When you put that focus together with the acquisition of a first class submarine force--let's say being able to flush three dozen submarines which apparently they would be able to do in short order--that doesn't mean to me I think that they know how to do submarine operations. I don't think they do. I think it takes a long time for a service to develop the effective kind of capabilities in a subsurface environment. Buying the submarines doesn't give you that capability, but they may develop it.

The question I have to you is given that focus and given their acquisition strategy, do you think that it is becoming and more difficult for us

to rely on the battle group in the Pacific in terms of the defense of Taiwan? That the battle group is going to become too fragile given Chinese efforts here?

That's the one thing, and I would couple that with something that your colleague to your left mentioned in terms of their kind of buying to magic shows, which they buy into magic shows. I think they teach in their military schools battles that were in fantasy and in theater in the past as actual battles, lessons learned. So they may buy and acquire the submarine force. They may not necessarily be able to operate it effectively, but they may believe that buying it gives them kind of the magical capabilities that a submarine force would give them without really having that.

So I guess my question is to what extent do you think the battle group concept is being threatened by Chinese acquisition capacities here?

REAR ADMIRAL McVADON: I think it's being sorely threatened, and it's threatened even if the Chinese don't get it all to work because we won't

know whether it will work or not in a crisis. So there is that threat remaining.

Also, the Chinese situation with undersea warfare is radically different from ours because it can be narrowly focused, and they don't have to succeed every time. All they need is an occasional success or the prospect of an occasional success, and I will take as an example the acquisition that's ongoing right now of the eight new Kilo submarines that have that SS-N-27 that several people have mentioned including me.

All you need in that situation is to get those submarines lost among 55 other submarines and then have the prospect that for more than 100 miles, you could be attacked by, from several axes by anti-ship cruise missiles. Submerged launch, sea-skimming, highly evasive, so forth, intended to defeat Aegis. So all those things are troublesome.

Now, undoubtedly we must be working on countermeasures and decoys, so I would hesitate to say it quickly makes it obsolete. Remember there are two sides to this picture.

But let me mention another factor here. Our submarine force, of course, is a strong thing and they are very weak in anti-submarine warfare, but it's worth noting that those ballistic missiles that I said had not been mentioned by anybody else, ballistic missiles to hit ships, that they might succeed at in a few years, those things allow them to completely get around our superiority in submarine warfare.

You don't have to worry about submarines when you're hurting carriers with ballistic missiles. So that's another reason for us to be doubly concerned about this development.

CHAIRMAN D'AMATO: Thank you.

HEARING CO-CHAIR DONNELLY: If I may, Dr. Johnson-Freese, would you agree with Admiral McVadon's assessment of the capability for terminal guidance? Also interested in your views on the reconnaissance and command and control capabilities that would be required or acquire targets in that scenario.

DR. JOHNSON-FREESE: To the best of my knowledge, yes, I fully agree with Admiral McVadon on his assessment, and I would say that, you know, this is again one of the difficulties in terms of command and control, are the Chinese increasing their space-based communication systems, ISR? Absolutely. Of course, 90 percent of them are stated to be for civilian purposes. Can they be? Yes. Are they?

HEARING CO-CHAIR DONNELLY: What's the difference?

DR. JOHNSON-FREESE: Yes, exactly.

HEARING CO-CHAIR DONNELLY: Commissioner Robinson.

VICE CHAIRMAN ROBINSON: Thank you, Mr. Chairman. Admiral McVadon, you've offered an especially chilling scenario of a massive Chinese military offensive against Taiwan and U.S. forces that would clearly overwhelm the former and possibly the latter.

What specific steps would you recommend, and I'd be interested in the views of other



panelists in this regard as well, for both Taiwan and the U.S. to prevail against such a Chinese missile, sea-based, air-based blitzkrieg of the type envisioned in a Taiwan scenario? For example, does Taiwan require Aegis destroyers and other major upgrades of that variety? Is the U.S. today on a sufficient hair trigger with the necessary assets in place to launch its own intense, debilitating assault on Chinese forces and command and control?

So I would just be interested because we buy entirely the rapidly escalating dimensions of the threat. Now, it's a matter of whether we are really up to an adequate response.

REAR ADMIRAL McVADON: Let me begin by making a point that I wanted to earlier this morning when the other panels were up here talking about the Taiwan special budget package and so forth, yes, it is an overwhelming attack.

So let me give another grim analysis of this thing. There is an undercurrent in this issue of whether Taiwan buys the things that are in the special budget package that was not mentioned, and I

think it's an important one. Yes, of course, it's primarily political as to why it's not getting through right now.

In addition, these things don't work. They could buy all the PAC-3 that they could possibly put on the island. They could buy Aegis and it will have almost no effect if China chooses to conduct an overwhelming attack with medium and short-range ballistic missiles, all of which can defeat those systems very readily.

Unfortunately, the people in Taiwan who have realized that the most have thrown up their hands with respect to buying things from the U.S. that don't work for them--they simply are not cost effective--and quietly said we will develop an offensive counter strike capability, and you've seen evidence in the press of that recently, both cruise missiles and now ballistic missiles that supposedly will be tested.

I think a very dangerous thing for Taiwan to undertake. Taiwan is not, these people in Taiwan are not, as has been suggested earlier, ignoring

their defenses. They have instead had to look around and say the American package doesn't work, we have to go on our own, and I think it's a very dangerous thing to do.

Now, are we ready? No, I don't think we're ready to cope with it. That's the reason that I said this is analogous to the 1964 Chinese acquisition of nuclear weapons. It's something we now have to accommodate to. We certainly don't want to have a nuclear war with China; we certainly don't want to have a major war with China.

The only thing I can see right now--and I'm not pretending that I'm coming out with some sort of elegant formulation of a solution--the only thing I can see right now is that we must convince the Chinese that it does not serve their interests, that they might not get--they probably will not get Taiwan back, and that China will be the country hurt the most in this foolish undertaking.

We must try convince them that their comments with respect to Taiwan, it doesn't matter, we can do anything, we're willing to take all the

consequences, that all that it means for China's international reputation, for its international trade, for foreign direct investment in China, for the Chinese military, for all of those other things, that that is the way that we try to convince Beijing, your interests do not lie with a stupid decision to attack Taiwan, and that's the only way I see to cope with it right now.

I'm not saying that we don't continue to increase our fleet readiness and to try to do these things, but I think the central feature of it lies with somehow convincing the Chinese that this is a bad decision to make.

VICE CHAIRMAN ROBINSON: Just one quick follow-up on that. If we look at it in strictly military terms, and I agree with you that the whole relationship and the economic, financial, technology transfer, you know the whole spectrum of the relationship should be put at risk in trying to persuade them or dissuade them from pursuing this kind of foolish strategy.

But again just focusing on the strictly military side for a moment, and when the shooting starts, this would require thousands of pieces of ordnance of the United States being released at once presumably and in a ruinous assault on Chinese assets both on the land, sea, elsewhere.

Do we have, I mean on a hair trigger, or do we intend to develop the firepower required for the scenario that we're facing?

REAR ADMIRAL McVADON: I'm not in a position any longer, since I've been retired since 1992, to say what our readiness is with regard to that. I know that we're working to resolve these problems and that I also should comment that the majority of forces that would be involved are not ones that are tied up elsewhere right now because, of course, they're primarily naval and air.

So I think we could make an effective assault. The problem with it is, no, we are not on a hair trigger, so that if China somehow puts it all together, and I'm not saying the odds are this high, and presents us with this fate accompli by quickly

doing it against Taiwan, that they may have accomplished their purposes of then our saying, asking the very legitimate question, is it futile to do this now, because eventually I think we can prevail. But if we have over a matter of a week or a month failed to do so and failed to respond because prudently we did not sail our ships and other forces into the brunt of those things that I described, and that Taiwan says where are the Americans, we thought they were going to be here, and they're not here, and so they capitulate, and so it's all over, what do we do then?

So, no, we're not in a position, in my view, and it is just that--my opinion--we're not in a position to ensure that China can't carry this off, but let me remind you, China is in no position to ensure that it can carry it off either. As I described to you, it's a very difficult thing for them to do this two-pronged campaign.

Unfortunately, they might try whether they're ready or not, and then, of course, we're into it.

MR. BLASKO: May I just add something to that?

HEARING CO-CHAIR DONNELLY: Yes, please.

MR. BLASKO: I would go back to Clausewitz, and it all has to do with the will. I believe the Chinese have the will to do exactly what you have described; they have the will to do that. Obviously, the question is or in my opinion the question is does the Taiwan government, military and people have the will to resist because the Chinese will certainly be able to punish militarily Taiwan and ruin it economically or hurt it very badly economically?

But I enjoyed the discussion at AEI a few weeks ago or a few months ago with Sean Naylor that you had, Commissioner Donnelly, and you seem to be a big proponent about boots on the ground. I also am a big proponent for army forces. In my opinion, the big question is punishment, yes, in phases A, B, C, D and E, the amphibious landing, the major airborne landings. Major boots on the ground comes way down the line. That would be probably several at least

weeks if not months. So, to me, the whole question is Taiwan's will to resist during that period.

DR. MURAWIEC: Yes, briefly, you are asking, sir, about the calculus of deterrence with respect to China and Taiwan. I remember several public discussions, not to mention private ones, with senior PLA people, and I'm sure everybody here has had exactly the same, where some ruddy, rugged senior colonel turned to me and emphatically declaimed we will spill an unlimited amount of blood in order to recover Taiwan, blah-blah-blah.

It seems to me that the best, the best--one good thing to do--I don't claim to have the, you know, the ultimate recipe that it will settle the problem, but it would be very good if any time a Chinese person of responsibility says anything like that, he were answered by a smile and said, dear Sir, if you do that, we shall incinerate you, very politely, in a very friendly manner. We don't need to raise our voices, but if we're talking will, if we're talking deterrence, I think that in that case strategic ambiguity is deadly.



I think that if the Chinese are convinced that we're going to fumble, it gives them so much of an incentive to go forward, whenever it were the case that they would want to go forward, that we're playing a very dangerous game.

If, on the other hand, they're totally convinced that we're going to be very bloody-minded, I think it might help them see the light of wisdom.

MR. BLASKO: May I also just add one short point to that? I believe that the Chinese senior military leadership is quite aware of its capabilities and quite aware of the gap between its capabilities and U.S. capabilities. They understand the status of their forces I think better than we do, and I think at the military leadership level, they want a long time to continue to prepare for such an eventuality.

HEARING CO-CHAIR DONNELLY: On that happy note, Commissioner Dreyer.

COMMISSIONER TEUFEL DREYER: Admiral McVadon, you have dropped a bombshell, and if I hear you correctly, the United States has chosen to sell

the wrong weapons to Taiwan and certain people in Taiwan realize it, even though they haven't articulated it very well, to us at least, and the United States, since they have not been able to procure the right weapons from the United States and no one else will sell, they're embarking on a very dangerous course of developing the right weapons themselves; is that correct?

REAR ADMIRAL McVADON: No, I don't want to say that they're developing the right weapons and I didn't mean to say that we sold them the wrong weapons. So let me describe precisely what I mean by this. You certainly don't want to say that submarines are a wrong weapon, and by the way, I visited at least twice with the Taiwan submarine force, and they're as professional as we are. I would hate to see that force die.

But when you are talking about eight submarines that they would acquire ten to 12 years from now, and that that submarine force would be compared with an extremely, much larger than the present very impressive Chinese force, remember

they're building in serial construction now new nuclear attack submarines and the Song and Yuan-class very advanced, diesel-electric, and acquiring the Kilos, I mean this is truly an impressive force.

Now, it's not just that you have submarine against submarine. But just to make the point, what does it mean for Taiwan to say that it spends \$12 billion right now on a submarine force that it gets ten years from now when it's looking at what is across the Strait ten years from now?

I mean it's a drop in the bucket, and with respect to missiles, to missile defense, do you give up altogether because you don't have enough? I don't think so. Maybe, maybe the Chinese choose to use a few missiles to intimidate, but at least from a psychological viewpoint, you probably want to have some defenses.

I'm simply saying that realistically, you know that these missile defenses that you get now are not going to do nearly the whole job. Maybe if you're the Taiwan military, you know that any military in the future will have to have some

measure of missile defense, so you want to keep up, you want to stay in bed with the U.S. on missile defenses and so forth.

But you have to realistically realize that this is not the solution to the cross-Strait problem and it doesn't do you very much good because you have a secret weapon, and Taiwan's secret weapon, its zhoushojun [ph], its assassin's mace, is the United States. It must not undermine its relationship and the willingness of the U.S. to come to its aid. Taiwan cannot do it alone. It can't even come close.

So it's got to have the assurance that the U.S. is going to do that, and it must be careful not to undermine any American president's ability to make that decision rapidly.

COMMISSIONER TEUFEL DREYER: But to play the devil's advocate on that, one sure way to lose the United States' confidence is to refuse to buy those weapons; right?

REAR ADMIRAL McVADON: Yes, and of course that's the dilemma we put them in, and I think it's

unfortunate that we have put them in that dilemma because for some very thoughtful people in Taiwan, they don't quite know how to cope with it.

But the other thing that they have done that probably complicates that is the introduction of this prospect of offensive counter-strike capabilities. That also under many scenarios could complicate an American president's decision as to whether to bring our forces rapidly to bear, who provoked it, who did what, who shot John, all that sort of thing?

So it is all a very dangerous game right now, and I'm very sorry I went down these paths.

COMMISSIONER TEUFEL DREYER: Well, I certainly would agree it's an extremely dangerous game, but I think whatever happens in the Taiwan Strait, each side is going to point the finger at the other.

A quick question for Dr. Johnson-Freese. I was interested in your statement that a lot of space technology is considered dual use. The complexities of determining intent increase exponentially, and

you also mentioned in your oral statement that the United States has difficulty interpreting Chinese intentions, and to be sure, when you look at a piece of hardware, I'm sure that's the case, but it seems to me if you couple that with reading Chinese military journals where they're quite explicit about how they would use these things against, quote, "a superior technological enemy," which I think is pretty much a category of one, that does seem to indicate to me that the intention to use it is there. Would you not agree with that?

DR. JOHNSON-FREESE: Well, I would agree that they're certainly considering--almost to pile on to what Admiral McVadon said--that if they felt they were dealing with a superior enemy, this would be their, you know, their option. The Chinese are acutely aware that the first U.S. space wargame, Schriever I, the scenario ran something like a large mainland country threatening its small island neighbor.

It didn't take long for them to read into that, well, perhaps the United States is preparing

space warfare against the United States or against China; therefore, what should we do? We would be remiss not to prepare a response. So certainly I think you get statements of intent for those kind of possibilities; absolutely.

But when it comes to, again, there is not just hardware, there is know-how. We were talking earlier about technology transfer. Certain diagrams used in business textbooks in American universities are considered technologically sensitive when it comes to dealing with China. So I think those kind of lines get blurred very often.

COMMISSIONER TEUFEL DREYER: Thank you. And just one sentence for Colonel Blasko about the question of will. I agree with you, but I think the Chinese leadership has the will, but I'm not sure that the rank and file of the PLA has the will for a sustained war. Do you want to just answer that in one sentence or just--

MR. BLASKO: I think if ordered they will get the will, but like I say, I think they have a long-range modernization plan, and they can evaluate

where they are today against what they need to be, where they need to be, and, yes, they will do it if ordered. But I don't think they're confident, and I believe the Chinese military would want to go into military action with confidence that it can prevail, but I would, my reading of it is the Chinese military leadership currently is not confident of its abilities at this time.

COMMISSIONER TEUFEL DREYER: Thank you.

HEARING CO-CHAIR DONNELLY: Thank you.

Commissioner Wessel.

COMMISSIONER WESSEL: I thank all of you and thank you, Chairman Donnelly, for your first hearing and your performance. We appreciate it. Quick question: what do each of you see as the largest gaps in China's military capabilities right now, aside from personnel training and the issue of--I'm looking more at military modernization, acquisition strategies regarding weaponry, technology, et cetera? Can each of you give me your thoughts on that?



REAR ADMIRAL McVADON: As I said, they're putting together all the hardware. So it's now the ability to command and control, the intelligence information, to be able to target, and those are huge gaps. What's more, they need to exercise it and they need to exercise it realistically.

They're edging forward in that regard, but only that. So that is the biggest gap. It's the ability now to operationalize what they have built.

DR. MURAWIEC: I would say, yes, it's integration and the other one is that there's precious few people that have actual combat experience.

DR. JOHNSON-FREESE: Integration. In technology, the system in China, it's--as I think I called it in my paper--all thumbs. They can build technology, but it's spartan. Does it work when combined with something built in a plant by people you've never spoken to; you just sent them the blueprints? Maybe, maybe not. So they have a long way to go in systems integration. It's hard in any country.

Asian countries seem to have a particular difficulty with it, and China is at the top of the list.

MR. BLASKO: I think I would correct very few people. There are no Chinese military officers that have any experience in commanding or planning for the kind of warfare that their doctrine now envisions.

I think it is very important that they point out Guangzhou MR; command staff training was a weak link. It is the integration that we're talking about. It is the training. It's the building of the NCO corps. Right now for the Chinese since '99, they have just had a flood of weapons. They've got a new doctrine. They've got new NCOs that are trying to figure out what does an NCO do.

They're trying to train their officers so that they can command all these disparate systems. Many of them are worried is my unit going to be around next year. I can imagine the problems of being in a talk at the tactical operation center and trying to just get all the radios to work and all

the--does my computer work and everything like that, and I see that's what they're saying when they say command staff training is the weak link.

They are being overwhelmed, overwhelmed with the riches of the electronics generation and the new equipment, and you just don't figure that out overnight. It's going to take a long time to do it effectively. They can go through brute force before that time, but it will take--they understand it takes time to meld it all together.

COMMISSIONER WESSEL: Well, with integration and personnel being from each of the panelists the primary issue, as it relates to the EU arms embargo, does lifting that embargo enhance capabilities dramatically enough that it is of concern to the panelists?

REAR ADMIRAL McVADON: I won't pretend to be an expert, but I think it's of primary concern, and I mentioned this to several people who asked me from the press this question when that was, of course, the big issue, that the question is: how much will that open the door to better C4ISR for

them to be able to better integrate? I don't know the answer, but I think that is the underlying profound question and concern that we have about the EU, about the lifting of the EU embargo.

DR. JOHNSON-FREESE: If I could add to that, part of the issue is that the Europeans share the Chinese view that dual use technology is an efficient effective way to work. So they agree that if you have a limited amount of money, put it in a dual use technology. So I think the Chinese would benefit significantly and it's not a question of if but when, so they share a philosophy on this.

HEARING CO-CHAIR DONNELLY: Okay. Does anyone else have a question? Go ahead, sir.

DR. MURAWIEC: One word. I would compare that to Sweden's massive sales of ball-bearings to the Nazi military machine in World War II. It wasn't what was going to win the war, but it provided a very significant edge which would have been absent otherwise.

COMMISSIONER WESSEL: Thank you.

HEARING CO-CHAIR DONNELLY: Commissioner Mulloy, and just a gentle reminder that we are running tight on time.

COMMISSIONER MULLOY: Great. Thank you, Chairman Donnelly. Before I raised an issue regarding the economic relationship between Taiwan and China and its impact here. I want to tell you why I do that. Because we're charged, our statute that set us up said the Commission shall review the triangular economic and security relationship among the United States, Taipei and Beijing, including Beijing's military modernization and force deployments aimed at Taiwan.

So I think the statute makes some connection between the economic and the military. My background is not military. I was on the Senate Banking Committee for many years, General Counsel, Chief International Counsel. So I gravitate toward those issues because I think they're very important.

Now, I raised the question whether Taiwan's policy is kind of schizophrenic in that they're rapidly helping Chinese build its comprehensive

national strength, and Commissioner Donnelly noted that they shouldn't be blamed because we're doing the same thing. And I don't disagree with that.

Admiral McVadon, you say on page two of your testimony that it's important to influence China's intentions, and the best way to influence is for us to pursue a bilateral relationship that fosters a development of open, prosperous and progressive China, and I don't disagree with that either.

But Dr. Johnson-Freese in her testimony on page three tells if China's economic growth continues at projected rates, at some point in the future the U.S. ability to outspend China on technology will no longer be viable. And my understanding is we rely on high tech as a key component of our whole military ability.

So with all that, can I just go across and ask each of you, beginning with the Admiral and going across, do any of you watching this economic relationship, and I think a total imbalance--we were just in China--the investment going into high tech

in China from foreign companies helping them build their industrial and technological base I mean is just flowing right in there very quickly, and they have incentive programs to attract it. And our \$200 billion current account. The exchange rates would give our company--exchange rates imbalance which the president keeps talking about--we're not getting movement on--which encourages Western companies, American companies, to put their R&D in China because it makes economic sense for them to do so.

Does anybody think that this whole economic relationship is skewed and is helping China build its comprehensive national power and that this is a key component, if we're concerned about these issues, to go after?

REAR ADMIRAL McVADON: Yes, I take your point and I'm concerned about China's comprehensive national power and the building of it and the results that the economic development has on it. But it cuts both ways, and so I find myself coming down on balance on the other side, and saying that, for example, economic ties across the Strait are the

thing that may solve the problem rather than exacerbating it.

Yes, there's a risk. Yes, it has to be modulated correctly with certain things we don't sell and so forth, but I hold it out as the salvation rather than as the problem. I may be wrong, but that's the way I feel about it.

COMMISSIONER MULLOY: Good. Ms. Johnson-Freese.

DR. JOHNSON-FREESE: I would concur that globalization demands that we must be economically engaged with China, and, in fact, in the aerospace industry, I think being a critical industry for U.S. defense, we are in some way shooting our self in the foot because our companies are not allowed to deal with China, whereas other companies in Europe, in particular, are getting a foot in the door that will be very beneficial.

My comment on technology is a concern in not being able to continually outspend China is I think we have been putting many eggs in that technology basket, and we need to diversify, and I



think economics is one. I think we've been ignoring an entire area of arms control that we need to pursue. We need to pursue multiple policy initiatives rather than relying to just simply or primarily outspend on technology and use that as our edge.

COMMISSIONER MULLOY: Mr. Murawiec and Mr. Blasko, do you want to want to comment?

DR. MURAWIEC: Yes. As far as technology is concerned--

COMMISSIONER MULLOY: No, the economics.

DR. MURAWIEC: Yes, it's the economics. What matters in the economics and in the technological realm is not the bulk, it's not the spending as a gross value. What matters is the difference. What matters is the edge. Are you ahead? Do you have a marginal advantage? It is of no use that people deploy 500 million Apple Macintosh computers of the first generation. The question is are you in sixth generation? Are you further? Are you in plasma computing? Can you

apply that economically and militarily? And it's that edge which to me is the decisive factor.

MR. BLASKO: I fully support the United States maintaining its technological lead that we've had for some time now and continuing to invest in our military and maintaining a strong military. I may have some differences in some policies. But I believe we need to maintain a strong military. If I may, I don't know what the Chinese spend in military RTD.

However, I just read an estimate of the defense-related Project 863 spending. I think you're all familiar with that. From 2001 to 2005, again, I'm going by what I consider a good source, Timing Chung [ph], and he said from 2001 to 2005, it was renminbi \$7 billion, or less than \$200 million, per year in the defense-related aspects of the 863 Project.

At the same time, or currently, the United States RTD&E budget is \$69 billion. And that \$69 billion is what gets you the state-of-the-art military that we've got today. Whether that 863 is

one-tenth or one-twentieth or one-half, I don't know, but to me, it says to me, and I say we need to keep on doing this, our--and here I might disagree with my colleague--but our spending on these programs is--the Pentagon likes to use the word "robust."

I would also add too that the Chinese space program recently has been reported to have cost about \$18 billion, or 18 billion yuan, roughly US\$2 billion over 11 years, and once more NASA's budget for 2005 was \$16 billion. So we're spending a whole lot more in this regard, and I'm all for keeping that up.

COMMISSIONER MULLOY: Thank you.

HEARING CO-CHAIR DONNELLY: Thank you, everybody. I'd like to thank the witnesses, in particular, as Commissioner Wessel observed, this is my maiden voyage, at least sitting in proximity to the gavel, and you all have made it a success that I'll find difficult to duplicate in the future. Maybe I'll retire undefeated at this point.

I would like to observe a couple of things that seem to me to tie together all the witnesses' testimony that I recommend we look at in future hearings on this topic, in particular, this question of the Chinese ability to integrate and to reach a more competent level of sort of operational sophistication, clearly something to look at.

By the same token, it reminds me very much of the kind of debates we used to have the Soviet Army in the early 1980s, and we had a hard time assessing whether small improvements that they made such as the adoption of reactive armor for their tanks closed that tactical gap to the point where it made a great strategic problem for us in the broad defense of Western Europe. So I'm reluctant to, as Admiral McVadon sort of suggested, underestimate the quality of quantity and their ability to defend forward in the western Pacific which is just operationally a challenge.

And finally, one subject that the Admiral brought up that I think requires further study is the whole question of the follow-on phase as it

were. I think as much as we have questions about the initial sort of decapitation or initial assault, the question of what happens after that bolt is shot is something that obviously the Chinese are beginning to pay more attention to, but perhaps we are not. And maybe again, we could look at that a little bit more closely in future hearings.

So, again, with my very great thanks, I hereby gavel the proceedings to a close, and will inform everyone we'll resume at about ten after one.

CHAIRMAN D'AMATO: Yes. Thank you very much, Chairman, and this will conclude the morning session. We'll resume at 1:10 and in the meantime we'd like to clear the room and we're going to have a private lunch here. Thank you very much.

[Whereupon, at 12:35 p.m., the hearing recessed, to reconvene at 1:15 p.m., this same day.]

A F T E R N O O N     S E S S I O N

[1:15 p.m.]

CHAIRMAN D'AMATO: The hearing will come back to order. I'd like to welcome everybody back from lunch. We've got a full agenda this afternoon. We'll begin today's fourth session with a look at U.S. force posture in the Pacific. Growing numbers of modern attack aircraft, advanced naval combatant and ballistic and cruise missiles have greatly improved the speed and lethality of China's offensive military capability.

At the same time, the United States has committed large numbers of its military forces to support ongoing operations in Iraq and Afghanistan. How well are U.S. forces prepared to respond to a threat to peace and security in the western Pacific? What would be the likely outcome if hostilities were to commence between the United States and China?

Our first panel this afternoon, we have three individuals. First, on my left, Dr. Roger Cliff, political scientist at the RAND Corporation

specializing in Chinese defense policy and capabilities and U.S. defense strategy.

Dr. Cliff joined RAND in 1997, but from 1999 to 2001, served as assistant for strategy development in the Office of the Deputy Assistant Secretary of Defense for Strategy. While in that position, he led a study of U.S. strategy and force structure in the Asia Pacific Region and oversaw the DoD's analysis of future security environment.

Dr. Cliff received his Ph.D. in International Relations from Princeton University, Woodrow Wilson School of Public and International Affairs.

Next to him is Dr. James Mulvenon, no stranger to this Commission. He's Director for Advanced Analysis at Defense Group Inc. Center for Intelligence Research and Analysis. A specialist on the Chinese military, Dr. Mulvenon's research focuses on Chinese C4ISR, defense research, development and acquisition organizations, strategic weapons programs including computer network attack and nuclear warfare, cryptography, and the military

and civilian implications of the information revolution in China.

Next to him, again, no stranger to the Commission, Dr. Kurt Campbell, Senior Vice President, holds the Henry A. Kissinger Chair in National Security, and Director of the International Security Program at the Center for Strategic and International Studies.

Dr. Campbell is also Director of the Aspen Strategy Group, contributing writer to the New York Times, a frequent on-air contributor to NPR's "All Things Considered," has been a consultant to ABC News.

Previously, Dr. Campbell served in several capacities in government including as Deputy Assistant Secretary of Defense for Asia and the Pacific in the Pentagon, a Director on the National Security Council staff, a Deputy Special Counselor to the President for NAFTA in the White House, and a White House Fellow at the Department of the Treasury

What I'd like to do is start, go from left to right. Dr. Cliff, if you would start and if you



could confine your remarks to seven, or eight, or nine minutes, and then we'll go all the way through from left to right, and then open it up for questions.

Dr. Cliff.

DR. CLIFF: Thank you, Mr. Chairman, for inviting me to today's panel, and I think the topic is an important and timely one. There are a variety of different perspectives from which one could analyze what U.S. force posture in the Pacific ought to be, but I think it would be presumptuous of me to claim to have done a comprehensive analysis from all those perspectives.

So today I'd like to concentrate on one in particular which is what the implications for U.S. force posture in the Pacific are of potential actions by China to deny the U.S. access to the region in the event of a conflict over China, a conflict over Taiwan.

In considering the ways to enhance U.S. force posture in the Pacific, we need to consider not just the military capabilities that China is

developing, but also the ways in which Chinese strategies and military thinkers are considering actually employing those forces.

In a recent RAND study that I led, my colleagues Mark Burles, Michael Chase and Kevin Pollpeter, two of which unfortunately now work for James here, analyzed Chinese military doctrinal writings that discuss how to defeat a militarily superior power such as the United States and we found in those writings at least eight strategic principles that have implications for U.S. force posture in the Pacific theater.

And I won't elaborate on them here, but they are described in a little bit more detail in my written testimony, but the principles are seizing the initiative early in a conflict, the importance of surprise, the value of preemption, raising the costs of a conflict, having limited strategic aims, avoiding a direct confrontation with U.S. forces, and complementary to that the idea of conducting key point strikes against vital weaknesses in U.S.

military operations, and finally the principle of concentrated attack.

In addition to the strategic principles, my colleagues' analysis of the Chinese military doctrinal writings also identified a number of specific types of tactics that Chinese military doctrinal writings discuss that would have an impact on the U.S. ability to deploy and maintain forces in the western Pacific, and these include attacks on air bases, on aircraft carriers, on command, communications, information, surveillance and reconnaissance platforms and facilities, and on logistics, transportation, and other types of support facilities.

In our study, we analyzed the vulnerability of specific U.S. facilities and systems to the types of attacks described in these writings, but since this is a public hearing, I will not describe the results of that analysis, but instead proceed directly to those of our recommendations for mitigating the effects of those attacks, those recommendations that have implications for U.S.

force posture in the Pacific, and there are five broad recommendations.

The first is to strengthen passive defenses at air bases and aviation fuel storage facilities. China's rapid expansion of its short-range ballistic missile forces is well known, and while many of these missiles are only capable of attacking targets in Taiwan or other countries on China's borders, China is also developing longer range missiles that have the capability to reach U.S. bases in the western Pacific. Therefore, strengthening runways, increasing rapid runway repair capabilities would reduce the ability of those missiles to disrupt or prevent U.S. flight operations at our air bases in the region. Hardened aircraft shelters would protect aircraft from ballistic missile attack when they're on the ground, as aircraft are most vulnerable when they're parked in the open, and much less vulnerable to ballistic missiles when they are parked inside hardened shelters.

And finally, constructing underground fuel tanks would similarly reduce the vulnerability of

U.S. fuel supplies to Chinese attack, again referring earlier to the Chinese interest in attacking logistic systems. One way that might be implemented would be by attacking fuel supplies.

The second recommendation is to deploy air defense systems near critical U.S. facilities in the region, particularly air bases, but also other facilities. The air defense systems can obviously protect against--those that have an anti-ballistic missile capability can protect against the ballistic missile threat, but as you know China is also developing land attack cruise missiles and aircraft with precision-guided munitions and the air defense systems could protect against attacks from those types of systems as well.

And those systems are particularly significant when it comes to attacking harder targets such as the hardened aircraft shelters I mentioned earlier or buried fuel tanks.

Now, the U.S.'s military fighter aircraft are certainly quite capable against these kinds of air-breathing threats, but in combination with a

barrage of ballistic missiles that would temporarily suspend flight operations at an airbase, those airbases would probably not be able to protect themselves with aircraft and therefore would have to look to land or sea-based air defense systems for protection.

Therefore, in my opinion, the U.S. should deploy the Patriot PAC-3 system near any major facilities in the western Pacific region that we plan to operate out of in the event of a conflict with China over Taiwan.

And in addition, we should probably supplement those long-range systems with short-range point defense systems, whether gun-based or missile-based, that could provide a last ditch defense against any munitions that managed to get past the Patriots.

Over the longer term, the theater high altitude--I'm sorry--now called the Terminal High Altitude Air Defense System will provide an improved capability against ballistic missiles and the medium extended-air defense system will have an improved

capability against cruise missiles, and both of those systems assuming that they perform up to expectations should also be deployed near U.S. facilities in the Pacific when they are available.

Aside from using missiles and aircraft, the Chinese military doctrinal writings also talk about--how am I doing on time, by the way?

CHAIRMAN D'AMATO: You have a couple of minutes.

DR. CLIFF: I will wrap this up quickly. Aside from using missiles and aircraft, Chinese military doctrinal writings also talk about using special operations forces, and there are a number of things that the U.S. should do to defend against the possibility of attack by special operations forces or covert operatives against U.S. facilities, and these missions will primarily be the responsibility of local security forces, but it's important that there are mechanisms in place at U.S. facilities for base security to cooperate and coordinate with those local security forces and in addition, there are a number of other things that we can do to increase

our security of those bases that I detail in my written testimony.

Fourth recommendation of five--I'm almost done--is that we need to look at diversifying our aircraft basing options in the Pacific region, and this doesn't necessarily mean building new sovereign U.S. bases, but it means expanding the number of bases out of which we plan to operate or at least have the capability to operate in the event of a conflict from China. As the more places we can operate from, the more China has to spread its forces, and I referred earlier to the importance of a concentrated attack to the Chinese doctrine. This is one way of defeating that principle.

And the final recommendation is that the U.S. increase the number of aircraft carriers that would be available in the early stages of a conflict in particular. As you know, we have one aircraft carrier stationed full time in the western Pacific, but unless there were other carriers transiting through the region, the nearest other carriers would be on the west coast of the U.S., which would be



about two weeks away from the conflict, and given the Chinese emphasis on surprise and preemption, we certainly cannot count on having two weeks of warning.

Now, the Department of Defense has already recommended for basing an aircraft carrier in the Pacific, and I just want to say here that it makes a difference where it is. There is a difference between Hawaii and other places in the western Pacific. Hawaii is still about a week away. From Guam or Singapore, just to give two examples, you're only two or three days away. And that makes a difference.

Since I'm out of time, I just want to thank you for this opportunity and as I said in the beginning, I think this is a very important and timely topic, and again I don't intend to, I don't claim to have an exhaustive list of recommendations here, but a few key ones that I think are important based on our research.

Thank you.

CHAIRMAN D'AMATO: Thank you very much, Dr. Cliff. I'm sure there will be a lot of questions with regard to what you had to say.

Dr. Mulvenon.

DR. MULVENON: Thank you, Mr. Chairman, for inviting me here today. If I screw it up, I'll try again tomorrow when I'm here for tomorrow's hearing.

CHAIRMAN D'AMATO: Okay.

DR. MULVENON: As you've repeated in my bio, I've spent the last dozen years or so working on Chinese military and security issues. Currently, I'm at the Center for Intelligence Research and Analysis where I head a team of nine Chinese linguist analysts working on a lot of these topics for the U.S. intelligence community.

I'd like to talk briefly about some of the work I've done over the last five or six years on Chinese computer network attack strategies and the role that certain doctrinal theorists on the Chinese military believe that computer network attack could play in a Taiwan contingency involving U.S. forces.

I have five main points. The first is that it seems clear that from Chinese writings that there are two rough centers of gravity that we could probably derive deductively, one of which is the will of the Taiwanese people, which they regard as key to the Taiwanese political calculation about whether or not to capitulate. And the other major center of gravity, of course, is our military intervention potentially on behalf of Taiwan.

In this respect, theorists within the military that study computer network operations believe that this strategy has a great deal to offer that scenario. Chinese strategic writings on computer network attack over the last have a dozen years have become increasingly sophisticated, and their work in this area is increasingly institutionalized in my view.

At the strategic level, it's important to note that they believe computer network attack will not win the battle by itself. There are, of course, those true believers on the extreme that believe

that there is no need for conventional forces, just as there are in our own system.

But I would say the same middle views it as a supplement to conventional operations that has important advantages that other elements of their military power do not. It is asymmetric, to overuse of cliched phrase, only to the extent to which it does allow a relatively inferior power to have a substantial effect upon the operations of a relatively superior power.

One of the main reasons it's viewed as advantageous is because it doesn't enjoy longer range than China's conventional assets, particularly when your goal is to disrupt U.S. military operations, particularly logistics operations that occurring in the continental United States or in Hawaii, and finally most importantly, computer network attack is plausibly deniable in the sense that it's much more difficult to attribute the source of a computer network attack than it is a ballistic missile attack or other.

At the operational level, Chinese writings, internal writings, and here I would contrast their internal writings with more publicly known writings, like Unrestricted Warfare, which although high sellers in China, are not nearly as authoritative as some of their internal writings. In the internal writings, they emphasize defense over offense, whereas the external writings tend to emphasize offense over defense. They're much friskier about using offense.

The Chinese writings believe that they're currently in a very intensely hostile information security involvement where they're intensely vulnerable and that's a point we could discuss later, if you'd like.

Interestingly, and I think here the Chinese have some wisdom that our own computer network operations community has not really latched on to, which is that computer network attack is an unconventional weapon to be used at the opening phase of a conflict, not a force multiplier that can be used at every phase of the conflict, and there

are some important technical arguments why I think they have a real piece of wisdom there that I'm happy to talk in more detail about.

Some of the theorists believe that this IO campaign coupled with media and other types of attacks against Taiwanese centers of gravity and their political will as well as U.S. military intervention, could preclude the need for conventional action and therefore reduce the need to develop the conventional capabilities to confront the United States head on in the western Pacific.

And finally, they believe, and I believe this is one of the most important misperceptions in their views, that enemies are information dependent while China is not, and therefore enemies are vulnerable to these types of attacks whereas China isn't.

As China modernizes its own C4ISR infrastructure, they paradoxically become more vulnerable to these methods, yet this is a curious gap in their discussion.

My third point is echoing something that Dr. Cliff said, is that there is a very strong emphasis on preemption in the computer network attack literature, and this derives from a very interesting historical analysis of U.S. military vulnerabilities since Desert Storm in 1991. The basic argument of which is that if you allow a high tech enemy like the United States to get locked and loaded on your border with a full force protection package, that basically the war is over.

That the vulnerability of U.S. military powers, the deployment phase, is a reliance on using external lines of control for logistics and, as I'll get to in a moment, the vulnerability that our particular logistics system has in using unclassified computer networks to carry most of that traffic.

Fourthly, their writings on computer network attack are focused against not our classified computer systems, but attacks against our unclassified computer systems like the NIPRNET, that

carry our logistics data like TPFDL, the time-phases force deployment list.

The belief is the goal would be to exploit the tyranny of distance that Dr. Cliff mentioned in the Pacific and their perception of our casualty aversion, which I would argue is a misperception, to degrade, disrupt and possibly even deter our deployment altogether to a Taiwan scenario.

What is my assessment of these writings compared with empirical reality? I think that they're correct in the sense that these computer network attack capabilities would be available to the Chinese military in the near term, and my written testimony talks about what you need to have to have a computer network attack capability and even some of the advantages, I believe, that the Chinese military has in marshalling this kind of capability.

It does reduce pressure, as I said, on the need to develop equal or at least asymmetrically powerful conventional capabilities, and as I said before, it's plausibly deniable.



But the scenario that is woven by these theorists, I would argue, contains some important misperceptions, mischaracterizations, or exaggerations of the way we do business that are important although some of these trend lines are moving in the wrong direction.

First, as Dr. Cliff mentioned, their writings seem to sometimes conveniently forget about the ready carrier, Yokusuka, in Japan, positing that they're trying to stop a trans-Pacific deployment when, in fact, the ready carrier would not be affected by the kinds of logistics systems that they're talking about attacking and instead would only be two, maybe three days, from a Taiwan contingency.

However, they do highlight, and I think this is important, given the possible overextension of our military activity in the Middle East and other places, that there are windows of opportunity when critical carrier strike groups are "gapped" in the Persian Gulf or in the Mediterranean, that those

might be windows of opportunity in a Taiwan scenario.

Secondly, I believe that they believe that we have "rayified" computers in our system to the point where we could not possibly do what we want to do and particularly in the logistics realm without them, and, in fact, if you've been to Dover or places like that, you'll notice the grease pencil board discretely tucked behind the desk for use when the computers go down.

And that there is not an understanding, I believe, on the Chinese part that, in fact, a lot of these capabilities, albeit much slower, can be reconstituted manually, fax machines and the like.

The trend line that's moving in the wrong direction, however, is that we're increasingly automating our logistics systems to the point where professional non-commissioned officers who deal with these types of issues have certainly told me that they're not sure now that they could actually reconstitute what they do automatically manually.

Unfortunately, our response when they are attacks against the NIPRNET, in particular, is to take the NIPRNET down and go through it with a nit-comb looking for Trojans and backdoors and other things, and if that's the goal of Chinese attack, then they've achieved their goal in a relatively simple manner because of our standard operating procedures.

And finally I mentioned the perception about casualty aversion which one would hope has been undermined by the brave activity in the Middle East.

Finally, on a capabilities side, I would highlight that there is a very complicated issue involving Chinese patriotic hackers and the extent to which those patriotic hackers are, in fact, should be considered agents of the government or useful idiots for the regime, and I go through an argument that I've made before this Commission before at length in my written testimony and I'm happy to recapitulate it in the questioning.

Thank you.

CHAIRMAN D'AMATO: Thank you, Dr. Mulvenon. I'm sure there will be some questions on this cyber issue. Moving to Dr. Campbell.

DR. CAMPBELL: Thank you very much, Mr. Chairman. It's a pleasure to be here on the panel with friends James and Roger and to see good friends Tom and Patrick and you, Mr. Chairman, this afternoon. I appreciate the opportunity to be here today, and I too like James have five points I'd like to make, sort of at the outset, and then take it from there if we could.

In preparation for this session and indeed for other work that I'm doing, I had an opportunity to look back at the period in which some of this work on analyzing Chinese military power really began in a fundamental way, not sort of simply cottage industries, but really after the Taiwan Strait crisis in 1995-1996. Those two or three years following, there were a number of studies, some done at the Pentagon and some elsewhere, that were really designed to make some predictions about where Chinese military power was going.

And I would say generally speaking, there were predictions that where, look, here's the high end, here's what we might expect reasonably, here's, you know, if somehow there's a sputtering of the Chinese economy, and I think it would be fair to say in each of these reports, even in the reports that would be seen as the most conservative and the most worried about Chinese military power, in 1995 and 1996 and 1997, every single one of those reports missed on the short side.

Virtually, everything that was anticipated in terms of Chinese military modernization has been reached and exceeded, sort of exceeding the five-year plan, if you will, merely a decade ago, and I think it's very important for those of us that were involved in those efforts to acknowledge that.

And the fact remains--I'm not suggesting that Chinese military forces are ten feet tall, but the fact is that they have modernized, they have made investments, particularly in some specific niche areas, missiles and submarines and the like that you heard about this morning, I'm sure, Mr.

Chairman, but I think it's important for us to take a longer view on this and to recognize that, in fact, much more investment, much more capacity has been created than we would have anticipated.

In many respects, it confirms what we think we know about military history, is that those countries that face one overriding, overarching strategic objective tend to modernize more rapidly and more effectively than other countries, and that's exactly what we've seen vis-a-vis China, I would argue, and it's important for us to keep in mind as we go forward, and it should give us some humility today as we make our predictions about the future. That's point number one.

Point number two, we've talked fairly clearly today so far about the United States and our role in this larger context, but the reality is that we operate in Asia as part of a system of alliances, and I think it's important to both highlight areas where we've seen real successes and some areas that we have some challenges going forward.

The first and most important point I would make simply is that basically most Asians and they don't mean this in any way as a political swipe, but they believe that the United States has been preoccupied largely away from Asia over the last five years, and that we've had other business at hand, and in a sense, we've had an inversion of what we have normally seen from Asians in the past.

Asians have normally worried that they were generally pleased with the level, maybe not always the direction, but the level of American engagement in Asia. They always worried about the future, that the United States, that Americans would not have the wit and wisdom to appreciate the significance of the Asian Pacific region in the future. So they were always worried about the future. Today, it is inverted. What Asians are worried about is not the future.

They believe that in ten years when the current unpleasantness in the Middle East is taken care of, that we will return to Asia, but they're worried that they will return to a very different

Asia, because most countries in the region are making their deals with China, and we may believe, and by all sort of measurement, we are still the great power of Asia, but if you ask countries behind the scenes, they will say, no, the great power of Asia currently is China.

Now, you could suggest that that is an exaggeration of Chinese capabilities. I would not disagree with you, but the fact is that countries are making determinations about Chinese capabilities and behavior in an environment where there is a belief that the United States has been a little bit absent.

And in that context, what we've seen, particularly in Southeast Asia, is a lot of countries that are really doing what they can to curry favor with Beijing, and some of our alliances, particularly in Southeast Asia, I think Singapore is clearly an outlier here, in terms of very significant steps between the United States and Singapore on the security side, but other countries



have made fairly clear where they think their long-term bed is made and that is with Beijing.

Our alliance relations are extraordinarily strong and robust between the United States and Japan. Indeed, what we've seen over the last five years, and I give enormous credit to the Bush administration, and frankly to the Koizumi government, this has taken this relationship in a completely new, very important direction. I'm a little worried about what's going on in between China and Japan right now, and that's something that I think we have to focus on, but in terms of Japan becoming a more capable, more reliable ally, I think that's been remarkably effective.

And, of course, Japan is working more closely with us and more carefully working with us on a variety of contingencies. Australia also has been very active with us on a variety of fronts, but I would note that most of the efforts that the administration has taken to enhance our alliances have not had very much to do with Asia.

They are out of area responsibilities. So we got the United States working closely with Australia, Japan, other countries, even Korea, on issues that outside of Asia. When it comes to China, even countries like Australia will say wait a second now, Mate, we've got other issues here that we've got to discuss. And I think it's very important for the United States, and here I would just like to harken back to a speech that Secretary Rumsfeld made at the Shangri-La Dialogue, important speech, very powerfully delivered, but I think largely mischaracterized or misheard by Asians. Asians appreciated the fact that a Secretary of Defense was openly articulating areas that everyone feels and fears about China's military rise in Asia.

However, what I think the Secretary and others don't appreciate is not only are Asians worried about China's rise, but they are also worried about China and the United States descending into a new Cold War in Asia in which Asian countries are asked to choose sides. And so one of the things that we have to be careful about, as we go forward,

is not to conceptualize this challenge within sort of our own framework of reference, which is largely the Cold War vis-a-vis the Soviet Union and China.

It's not the Soviet Union, a much more multi-faceted, multi-colored different kinds of challenge than the Soviet Union, a kind of relationship in which we'll both compete with China and cooperate for the foreseeable future.

Third issue, and I'll move quickly, Mr. Chairman, although I'd really commend the Bush administration on what they've done with some of our alliance relations, I am worried right now that on the defense side, we have way too many balls in the air, and I'd actually commend my friend Tom Donnelly for work that he's done on this.

We are in the middle of a major war that we did not anticipate in Iraq, and ongoing operations in Afghanistan which we overlook. We are trying to reconstitute our forces. We have huge investments that we've put off in terms of long-range aircraft and other stealthy ships, and long-range army systems.

We are in the middle of a BRAC. We have almost broken the Guard and Reserve, and we have huge problems associated with sustaining the force on top of doing a global posture review.

So basically if you can imagine--and we're doing transformation. So basically what Secretary Rumsfeld has done has thrown every ball in the air, and I think privately we all acknowledge that some of those balls are going to hit the ground, and I think one of those issues that I worry the most about is the global posture review.

The key to negotiate about bases and other force posture in Asia is not to say I'm going to change everything and then go ahead and try to negotiate what that is. It's to work quietly and carefully behind the scenes about where you want to go, and I'm afraid that the process that some of this has been done I think frankly will hurt the United States.

I'm worried about our presence in the Asian Pacific region, and I know that there is often desire when a new team comes into power is they want

to change everything, but I'll tell you, I think U.S. posture and presence in Asia has served many administrations of Americans very well, and I think some of the things that the Secretary and his team have started I think are worrisome, and I'll just put that on the table directly.

Fourth, there's a lot of discussion about which service should dominate in the Asian Pacific region. It's long been thought of as sort of a Navy or maritime service, but new Air Force thinking suggests, no, this is the service of the future with penetrating aircraft that can do damage against Chinese hardened sites inside China.

The point I would make simply is I thin the last couple of years, if anything, underscores for us the need to be diversified and the need to be flexible, and so I would suggest, before we make any decisions, that large numbers of ground troops are not necessary in Asia, that we just simply think a little bit about what's transpired in Afghanistan, Iraq. Who would have anticipated five years ago,

we'd be where we are today? And think about those things a little bit more carefully.

And remember that once you make statements about leaving Asia, it's very hard to go back again. That's the fourth point.

Let me just conclude, if I can, Mr. Chairman, with one larger statement about the meaning, and Jim and Roger also mentioned this, as did you. It's very difficult in a difficult political environment to talk about what is the meaning of Iraq. We can't talk about failure. We can't talk about not succeeding and I appreciate that, and frankly as a person who supported the war in Iraq, like everyone else, I'm very concerned about where we are.

The fact is that we have to appreciate there are opportunity costs for what has transpired in Iraq, and it means the most difficult issues obviously are the lives and the commitments of our soldiers, sailors and marines who are serving so ably in the Middle East. But it's also financial

issues, compounded by Katrina, but most importantly, it is the mind-set of our senior officials.

I was at a Pentagon briefing not long ago --I won't say--with a very senior official and we were discussing Goldwater-Nichols, and I happened to be sitting next to this senior Pentagon official, who was listening in one ear and, on the other hand, kind of piling through his internal correspondence. Every single piece of paper that he went through in about a two-hour meeting was about Iraq, and that is replicated throughout this administration.

Of course, there's an attempt, of course, we're talking about China more and thinking about China more. Let's not fool ourselves. The Middle East and the larger war on terrorism takes up the lion's share of available intellectual resources at a time which we frankly need to be focused a little bit more on the Asia Pacific region.

So, Mr. Chairman, where does that leave us going forward? I think that after about a decade of uncertainty, we now have a fairly clear set of

strategic challenges that are stretching ahead of us for the next generation of two.

And the problem is that there are two very different and very deep challenges. Each on its own would be enough to consume American strategic ingenuity. One is what we do against on the war on terror, and for any of us who believe that somehow this is going to peter away, sadly mistaken.

This is going to be a long-term, horribly difficult challenge, which I think frankly we have overmilitarized, which we're going to think about how we compete more effectively in, and that's going to take an enormous time and effort, and it's been now wound into Iraq in a way that we cannot separate it.

Secondly, how to deal with the rise of China, and the rise of China is very different. Requires a lot of different tools, political, military, strategic, and each of these alone would be enough. I question whether the United States has the capacity, at least how we're currently configured, to deal with both of these



simultaneously and I think what we need to be thinking about going forward is how we take steps that allow us to effectively take on both challenges simultaneously.

Thank you, Mr. Chairman.

CHAIRMAN D'AMATO: Thank you very much, Dr. Campbell, for a very important statement, and as someone who has been involved in the Pacific region in an official capacity as long as you have, what you have to say about our role and energy and activities in the Pacific are well worth considering and I know we're going to have some questions about it.

Right now I think, Senator Thompson, you have a question.

COMMISSIONER THOMPSON: Thank you very much, Mr. Chairman, for your courtesy and other members of the Commission. Forgive me. I'm going to have to run back out of here in just a minute. But, Dr. Campbell, to what extent has this emphasis on Iraq, being spread thin there and other places,

in your opinion, what impact has that on our intelligence capabilities?

It seems to me like that underlying so many of these things that we're talking about today is the fact that so much of it depends on our intelligence capabilities. Our emphasis Soviet Union for so many years, now Iraq and so forth. I'm wondering, not your primary areas, I understand, but the impressions that you have in terms of our intelligence capabilities with regard to China today.

DR. CAMPBELL: Very good question, Senator. If I could just say, my sense is that there are always areas that we need to improve, but if you listed the challenges facing the United States, the area that I feel more comfortable in the intelligence realm is the challenges posed by China.

I think because it is a nation state, because it has many of the indices that we associate with great powerdom, shipbuilding, you know, military writings of the kind that we can pour over, we have a lot of contacts, interaction. We spend a

lot of resources on that. So I am much more comfortable with where we are in China than where we are, say, on the war on terrorism where I don't think we have a clue what we're doing.

I don't think we know really who we're fighting or where or where the next challenge will come. So I'm much more worried. We don't have enough people who speak, you know, the languages that will be necessary in terms of these secondary challenges, these challenges associated with the war on terror. I think there's a lot of stuff that we're gearing up on the intelligence community that will put us in a better situation vis-a-vis China than vis-a-vis the other challenge, if that answers your question.

COMMISSIONER THOMPSON: Do you all agree with that?

DR. MULVENON: I would to the extent to which it's a more tractable problem that I would argue that still a Cold War-oriented intelligence community still understands and is structured to

attack that kind of a problem, which is a variant on what Kurt has just said.

However, there is an inevitable finite amount of collection resources in particular, technical collection resources, that have to be devoted to supporting the warfighter and rightly so.

But those same collection resources that, you know, know the distinctive howl of every wolf on the Afghan-Pakistan border cannot be used in another place, and so, you know, given the kinds of technical collection challenges we're going through, I think that's just inevitable.

The problem is that the global war on terrorism, in my view, by definition has no end, and so when you talk about these balancing issues, you know, there's no victory, there's no VT Day, if you will, and so we have to think about balancing that load somehow because it can't simply be global war on terrorism uber alles and no focus on anything else.

DR. CAMPBELL: I agree with that.

COMMISSIONER THOMPSON: Thank you very much. Mr. Chairman, thank you very much.

CHAIRMAN D'AMATO: Thank you very much, Senator. Come back if you can. I have one quick question. Mr. Cliff, Dr. Cliff, your statements dealing with your study, what comes through to me clearly is that we have not paid attention to our facilities and our structures and our contingencies in the Pacific, and we need to get on top of that problem right away.

Is that a fair assessment that you see clear vulnerabilities throughout the region that need attention?

DR. CLIFF: I do see clear vulnerabilities. I hesitate to second-guess people like Dr. Campbell and so on, who have been working these issues for a number of issues, both inside and outside of government, and I actually met with Admiral Fallon a couple of weeks ago, and he impressed me very much in terms of being very much up on the types of issues that I was talking to him about.

And he's aware of the problems, and he is making changes or thinking about changes that need to be made. Changing our force posture, as we know, is a very drawn out process in the Department of Defense, and it's not something that we do quickly, and I do worry a little bit that maybe this process is moving too slowly. I wouldn't say that people aren't working on it, but major changes are happening very slowly.

CHAIRMAN D'AMATO: Certainly the pace is important. I thought it was very interesting what you had to say, Dr. Campbell, about the studies that we had done in the post-1993-04 period as all lowballing what we actually expected.

Now, in terms of the current period, it seems to me we need to be at the rather high end of those assessments because there's not too much short poles in that tent. They've got enough cash on hand to do whatever they think they need to do, and robustly so. I mean their cash on hand, their ability to fund anything they want at this particular point in time, if their economy keeps

going, will make their capacities to exceed their expectations a continuing issue.

I have one question dealing with a visit we just had to China. We met with some folks in Beijing who indicated that the time might be at hand to finally make some progress with the Chinese on confidence building measures in terms of crisis management techniques and institutions. I know this is an area that you've been involved in in the past.

If you were, what do you think of the prospect of that at this particular time it would be useful for us to make another go at that?

DR. CAMPBELL: It's a great question and I got the paper and thank you, chairman, for sending that over my way. And, you know, there was a period between 1995 and 2000, high hopes, at least on the U.S. side, about how to institutionalize various things like the maritime military agreement, the hot line, and a variety of other things.

Now, for a variety of reasons, basically if you look at the sort of the various crises or problems that we've had, the accidental bombing of

the embassy, the EP3 incident, almost all those mechanisms have failed for a variety of reasons, usually because of China's desire to avoid them, almost at all costs, which suggests that they see some of those mechanisms perhaps as somehow checking a box that things that the United States wants, but has deep misgivings about actually using them.

I think it's worth another go. I think China is maturing at least in its sense of understanding and appreciates the need to potentially scale things back, but they do have misgivings about confidence building, and I just list a few of them for you.

First, you know, for us deterrence is all about showing an adversary what we got so that they won't do things. I think for China, a certain extent is to allow potential adversaries some uncertainty about what they have, so that there's doubt, and I think that's the basis of much of how they think about deterrence.

Secondly, there are more tensions in the Chinese system, and true confidence building



mechanisms involve a heavy degree of military communications and involvement and I think the Party and the senior Chinese leadership is not sure that they want to give that responsibility to the military frankly.

And remember, we have the most mature system of oversights that we've seen between our civilian and military counterparts, but I must also tell you, quite honestly, one of the most interesting cases that we looked at in terms of confidence building was the Kitty Hawk event, and it would be fair to say that civilian leaders weren't completely, and on the U.S. side, knowledgeable about what had happened in this event where a U.S. battle group actually kind of engaged Chinese assets in 1995, all for maneuvering, but it got a little tense on a couple of occasions.

In addition, I think Chinese friends are fearful that certain confidence building measures will bless American activities that they find threatening. So we want to find a way to talk about if our planes that are flying right along their

border, if there's a problem, then we can work those programs out.

Well, the Chinese say to us, look, that's like giving seatbelts to a speeder. We don't want you flying your aircraft right along our border, so we don't want to work on a mechanism so we can avoid a problem if you stray into our territory. I'd tell you how to solve that problem in the United States: don't fly near our airspace.

And so for all of these reasons, confidence building has been difficult. And I will say that I think that if the Bush administration decides to go a little bit more in this direction, I think the Chinese will be more open to considering vehicles for discussion.

The last thing, I'm actually less worried about the United States and China when it comes to confidence building and dialogue. Who I'm really worried about is between China and Taiwan and China and Japan. Real potential for things inadvertently to get out of control, and I know people think that's highly unlikely.

In this environment where forces are traveling close to each other at greater speeds, there is real potential for misunderstandings.

CHAIRMAN D'AMATO: Yeah. Thank you very much. Just one comment on that. It seems to me that if we start with the U.S-China confidence building mechanism, there might be some hope that you could extend that mechanism to include the Taiwanese or the Japanese. Rather than try and get some kind of bilats between them, maybe we can serve in some way in the middle. I don't know, but just a thought.

Commissioner Donnelly.

HEARING CO-CHAIR DONNELLY: Thank you, Mr. Chairman. Thank you especially to Dr. Campbell for admitting he was lowballing in--

DR. CAMPBELL: Yes.

HEARING CO-CHAIR DONNELLY: My only remaining question is--

DR. CAMPBELL: Kept you in business; didn't it, Tom?

HEARING CO-CHAIR DONNELLY: --what the Secretary knew and when he knew it?

[Laughter.]

HEARING CO-CHAIR DONNELLY: But in the spirit of comity and looking forward, I have a couple of questions which I hope you will all address, and that's really to paint a picture for us of how really difficult it would be to defend Taiwan, and I want to divide it into sort of two halves.

One is simply the operational question of rapidly projecting military power, whether to deter or dissuade or defend, and to sustain it, not simply above Taiwan or across the Strait, but to at least potentially at risk the increasingly hard to get at targets on the mainland. Just you don't have to talk about it in ways it will compromise our operations, but just, again, generically paint that picture for us.

And then, secondly, and perhaps particularly for Dr. Campbell to talk about, the political dimension of that kind of decision both in

terms of the timeliness of an American response, the kinds of questions that an American president will have to face, you know, when the PACOM commander calls him on the phone or the chairman calls him on the phone, and again, maybe we could learn a lesson or two from the crises of 1995 and 1996 in this regard.

But again, just if you will, kind of spin out a little story about what we will have to do, both operationally, and how complex that will be politically?

DR. CLIFF: I'll start and I'm sure they'll have plenty of insightful things to add to what I add. Operationally, it is going to be increasingly challenging. In the near term, the most significant challenge is, as I mentioned in my opening remarks, the growing Chinese ballistic and cruise missile threat to U.S. airbases, particularly those in Japan, and over a longer period of time, aircraft with precision-guided munitions on the Chinese side started to become a factor as well.

So part of it depends on what type of attack you're talking about. If you're talking about trying to defend Taiwan against missile bombardments or aircraft attacks, that is going to be something that is going to be very difficult for us, increasingly difficult. It depends on what your threshold is for success in that regard, but certainly it's very difficult for the U.S. to stop China from delivering a lot of ordnance to Taiwan.

Now, whether or not that translates into military victory, though, is not clear, and when it comes an amphibious invasion of Taiwan, I think for the near term that's something that we can probably handle, but over time, that is going to get more difficult, too.

Particularly with the types of air defense systems that China is acquiring, it's going to be very difficult for us to operate in air spaces around the Taiwan Strait, and our most effective way of sinking an invasion fleet would probably rely very heavily on aircraft delivered ordnance and if

those aircraft can't safely operate near China, then that problem gets a lot harder too.

And we know that China over time, the missile threat to close-in bases will become greater and that will force us to operate possibly from more distant bases such as Guam, and when you're doing that, what happens is the number of aircraft you can have in the area at any one time falls quite dramatically.

And that puts a real premium on having very highly capable platforms that can do a good job while they're there and I don't want to get into debates about specific weapons systems, but you know, something like--

HEARING CO-CHAIR DONNELLY: Could I ask a leading sort of generic question about the effort required to sustain a single tactical aircraft based in Guam over the Taiwan Strait?

DR. CLIFF: Yeah. We did some analysis of that actually, and you have to have a large number of aircraft, about five to one ratio, five aircraft in Guam for every one that you can keep over the

Taiwan Strait at any one time, and huge amounts of support assets to be able to keep them up there.

So just to use an example, if you're talking the F-22, you have 200 of them, that means you can have 40 of them over the Taiwan Strait.

HEARING CO-CHAIR DONNELLY: If you had them all based on Guam?

DR. CLIFF: If you packed them all into Guam. Now, Guam is a huge airbase, and that's probably possible, but still that 40 aircraft is not a large, although that's a very capable aircraft, and it certainly makes a huge difference if you're flying F-15s which are more--you know, the Chinese are starting to acquire some key aircraft with comparable capabilities as opposed to F-22s.

The other threat that's going to increase over time is, potentially anyway, is the Chinese are very interested in the possibility of using ballistic missiles to attack aircraft carriers, and if they were to master this capability, this is a potential disruptive type of technology that would fundamentally change the way our Navy has to operate



because the ballistic missile is a very different type of defensive challenge for an aircraft carrier battle group than the cruise missiles and submarines that we worry about currently.

And because of the hypersonic reentry velocities, if they were actually to succeed in hitting an aircraft carrier, the damage would be enormous. And so if they were to master this capability, then our surface-based naval operations start to look problematic as well, and there are a number of other things that China is doing that is going to make this increasingly challenging.

Now, I can't--it's hard to say at what point China's military capabilities get to the point where we really can defend Taiwan, and certainly on a global scale, the U.S. is going to enjoy the advantage for the foreseeable future, but remember, we're fighting an away game. We have to bring all of our equipment to the fight across an ocean whereas China is operating out of its own backyard, and that is a significant advantage.

HEARING CO-CHAIR DONNELLY: Just to follow, if I may--I beg everybody's indulgence--even one of our large deck aircraft carriers if--again, you mentioned the absolute speed that this warhead or round would be traveling at--do you anticipate that if, you know, unless it was just an absolute glancing hit, that the ship could sustain a hit of that velocity and remain operation?

DR. CLIFF: It depends on where it hits. I mean if it hits, you know, the conning tower--

HEARING CO-CHAIR DONNELLY: It goes right through.

DR. CLIFF: Well, it goes right through no matter where it hits, according to the people who study these things. The question is, you know, can you have a hole all the way through you and still float? Yes, I an aircraft carrier can. Whether or not you can maintain flight operations, that would look pretty problematic unless it just took a corner off or something like that.

HEARING CO-CHAIR DONNELLY: Thanks. Sorry. I'm sorry. Anybody else want to--

DR. CAMPBELL: Yes, we want to. Yeah.

DR. MULVENON: I would just highlight a couple of additional points, that one of the interesting trend lines we're looking at that would, again, be disruptive, would be the conventionalization of the theater missiles that the Chinese are talking about because traditionally we had talked about nuclear-capable ICBMs and then conventionally capable short-range ballistic missiles, and the intermediate theater range missiles were all nuclear.

And when one thinks about a world in which the dramatic progress we've made in terms of increasing our operational capability, particularly in what I call "fortress Guam," you know, becomes increasingly vulnerable then in an environment where you have these high reentry speed theater ballistic missiles.

Second, Roger mentioned this, and I just want to put a little bit more detail on it. The potential acquisition in the near term of the next generation of Russian surface to air missile systems

would extend the range ring of their surface to air missiles to encompass the entire island of Taiwan, which would be, as you can imagine, highly problematic even if the Taiwanese forces had been destroyed or were standing down and we were trying to fight over the top of them.

And then so that completely changes the environment where you had previously looked at range rings that were over the Strait but you still had some sanctuary in Taiwan if you needed to land or other things.

Submarines, I think, are an increasingly difficult problem. And the learning curve for us currently on Chinese submarines is extremely steep, compounded by, you know, science is against us because frankly the acoustic environment in the western Pacific with the thermocline layers and things are extremely hostile to effective anti-submarine warfare.

This is an area, just to follow on something that Kurt said, where we have really an engaging partnership with the Japanese, frankly, to

be made, because during the Cold War, we largely outsourced anti-submarine warfare in the western Pacific against the Soviet Pacific fleet to the Japanese and they have a very robust capability in this regard, in fact, in some cases, superior to our own.

But this submarine threat east of Taiwan, particularly given the dramatic rate at which they are producing new diesel-electric submarines, potentially ones that employ air independent propulsion, is deeply troubling to Seventh Fleet, particularly the extent to which, as Roger said, it forces us to deploy farther away from the island and therefore have less punching power over station when we need it.

And then finally, I'll stick my toe in the water and say that our capability to operate and to prevail in a Taiwan contingency is not simply a function of our ability or our allies' ability, but also the ability of the Taiwanese political and military forces to do the things they need to do.

And here, as I've said before publicly, I'm deeply troubled by the lack of attention to critical infrastructure protection, by the decline in the regular defense budget. I think we've made a major policy mistake frankly to make the overwhelming metric of Taiwanese seriousness about their own defense to be the special budget to buy systems that in my view probably won't come on line and be operational till well after where I think the window of vulnerability and danger has opened.

But an overall belief that, you know, I think fostered by, in some cases, an appalling sanguineness about the China threat in very high levels in the president's office and other parts of the Taiwanese system, that we really require the Taiwanese to be able to hold out and to carry some of the water in one of these contingencies because the political dynamic that will ensue towards capitulation will exceed the speed of the time lines of our logistics deployment to the area. And so I think we need to think about it as an organic whole.

DR. CAMPBELL: Thanks. Tom, good question, and I associate myself with the comments of my colleagues here on the stand. I do think that James in particular makes a couple of points that I think are important for us to keep in mind.

One is that while I actually think it's critical that our Taiwan friends make the appropriate investments, the reality is that we've lost, you know, five or six or seven years that will be very difficult to reclaim. So it suggest that you really, that Taiwan has to shift some of its focus to some urgent needs, and I would say, number one, on the top of that list, is frankly continuity of government, and I'm talking about real continuity of government in a crisis of the kind that we saw played out during the assassination attempt last year, in which, you know, all this talk about this was a staged assassination, I think that's ridiculous.

I think what's much more troubling is to look at what happened in Taiwan after the attacks, and how much confusion the government was placed in.

Now, the military has some capabilities, but I think it would be fair to say that the civilian authorities do not yet really have a concept of what this means.

That worries me a lot, and it seems to me that we know a little bit, and frankly we know a lot about continuity of government, given our own experiences during the Cold War and more recently as we've updated those procedures and that work in the intermediate aftermath of September 2001.

Second point, Tom, you know, I think that actually some of the most difficult issues are the ones that we laid on in terms of hardware and flowing forces to the field. The truth is that there are going to be a whole host of political issues that are going to be as difficult.

Most of our strategic relationships and our private protocols, even with some of our closest allies, are carefully hedged, and they are not carefully and systematically trained for, and it would be fair to say that if we face this kind of



crisis, people would be having first conversations with their counterparts in a number of countries.

I don't think the president of the United States has ever talked to a leader of Taiwan; have they? But it's inconceivable to me that we'd be flowing forces to the field and there wouldn't be some communication. Likewise, go right down the list, you know, of all the kinds of counterpart discussions. I think those exist in theory; how they would work in practice, I'm not sure.

How hard is it to operate in Katrina where we theoretically know how to do this stuff? These are some working relationships that we don't have. And it's not just Taiwan. It's Japan. It's Australia. It's Singapore. It's South Korea. Many of these countries will be immediately sort of the Chekhovian moment where they'll just stop and they, you know, oh, my God, what do we do? Either way is extraordinarily challenging for them. Right. So that's the second point.

The last point I would just say, and I think it would be imprudent and improper for anyone

to suggest in a public hearing that Iraq complicates our ability to do sustainment because I think it's an unhelpful thing. But the reality is that Iraq and Afghanistan require an enormous amount of existing tail, infrastructure, sustainment, that is complicating, and I don't want to say anything beyond that.

HEARING CO-CHAIR DONNELLY: I apologize to my colleagues. I just hope that the quality of the answers redeemed my--

CHAIRMAN D'AMATO: You were lucky. You were lucky. Commissioner Bryen.

CHAIRMAN CO-CHAIR BRYEN: I want to commend the panel. This is a very important discussion, and you have contributed a great deal to the thinking of the Commission. We probably need a lot more of your time, I would guess.

If you have three cameras, I thinking about the U.S. defense posture in the Pacific, and you had three cameras, one five years ago, one right now, and one five years from now, and you could take a

force posture picture, where are we? Five years before, now and in five years, what's happening?

DR. CAMPBELL: Force posture.

CHAIRMAN CO-CHAIR BRYEN: We know what's happening with China. We've been talking about it, talking about it, and talking about it, but I want to know what's happening with us.

DR. CAMPBELL: Let me, and Roger probably has--I think, you know, 2000, roughly 100,000 sailors forward deployed. I was involved in the decision for the 100,000. I'd be the first to say it was the wrong kind of name tag for all the right reasons. Okay? And I think we're moving away from that and so we're not going to base our forward deployment on a number, which is exactly right.

But the reality is, and I think we have to understand this, although we are transformational and we think in terms of new capabilities, most Asian mind-sets are very traditional, and they measure things in terms of presence. Are you here? And I think there is a belief that if we can reach out and touch you from places in the United States

or far afield, that somehow we'll be able to commit and communicate our staying power and our decisiveness.

And I worry about that, and I disagree with that. I think it's wrong. I think actually having forward deployed forces despite how difficult it is in terms of managing, you know, country relations and stuff actually has been very helpful to us.

So I think having forces in Japan, even in Okinawa, South Korea and elsewhere is valuable, and I think keeping those forces in the Asian Pacific region is something that we should want to continue in the future. If we continue on this trend, I think it's not inconceivable that in the next, you know, five years, we'll have more attack aircraft, probably slightly fewer ships, maybe more submarines, and probably a dramatic reduction in our ground forces, both Marines and Army.

DR. MULVENON: I would say that five years ago, it would be safe to say that our posture in Asia was largely still a Cold War posture just by definition.

CHAIRMAN D'AMATO: Largely?

DR. MULVENON: A Cold War posture. That it had largely not changed, but that the good news since then, in my view, the greatest progress has been made in terms of the advancements in Guam, and here we present the Chinese with an interesting dilemma. In view, you know, part of the PSYOP that I often run with my Chinese interlocutors is, you know, don't fool yourself into thinking that Guam is a territory not of the United States but should be considered somehow in a deterrence framework as somehow separate from the continental United States, that somehow we'll just allow you to rip the arm off, but we won't notice the limb is missing, but that in fact it will be treated much differently.

Even though our bases in Japan are technically U.S. territory, there is something about the fact that the Guam is actually a territory of the United States that I think is a fundamental psychological difference that changes some of the interesting deterrence dynamics in the region and,

as Kurt said, we've made some important advances, although typically quiet, with the Singaporeans.

In Korea, the goal right now, despite all the Sturm and Drang in the relationship, is to move from a situation where you had U.S. forces that were basically pinned down for one mission and one mission only, which was the operational plan against North Korea, and any movement of a single individual away from those standing forces was to set off alarm bells all over South Korea, that our commitment was waning and that the North Koreans were going to attack immediately.

I think the administration has made the right and difficult move to say that we need to be able to take these forces and have the flexibility to use them for regional contingencies and it will not fundamentally undermine our ability to carry out effectively the O-plan and other things.

Similarly, I think Japan has made more progress in this part by their own initiative and their own energy towards their own independence. I mean this is one of the most shocking things I think

for the Chinese side has been the extent to which the Japanese were willing to drive off the Han that was in its territorial waters and the aggressiveness that they've shown in certain situations to protect their territorial waters has frankly resulted in a very intense rethink about the future trajectory of Japan in Beijing.

Finally, I would just register one disappointment, and my disappointment is with the Philippines, and Roger wrote about this extensively in a study that we did together in 2002 at the World famous RAND Corporation, and that was a situation where if handled the right way, that some facilities in northern Luzon could have been used as training rotation that would have been particularly helpful in a whole variety of ways in a Taiwan contingency, but I'm afraid we have not made nearly the amount of progress on that front that I would have hoped.

DR. CAMPBELL: Just one. I like very much, the one place that I would pose just a slight bit of caution, we do have lots of interesting plans for the Korean peninsula, and the idea is that we will

now use the Korean peninsula more as a jumping off point to do certain military operations elsewhere. The problem is that we've had almost no consultation with our Korean interlocutors about this, and they're completely utterly totally against that.

Okay. So except for that small little detail, everything is going very well. The reality is what has kept the alliance together has been the commitment to deter North Korea, and the fact is that we have put almost all of our efforts talking about these other outside activities and talk very little about what we're thinking about in terms of maintaining deterrence vis-a-vis North Korea, and I think we've got to be careful with ourselves. We are not sending the right message to North Korea. We are just not, and any conservative, not a Republican, conservative would say wait a second, we've seen this story before, it led to the Korean War, we've got to be very careful that we don't send a message that, oh, well, that's your problem, Koreans, and then we're going to start thinking about stuff associated with Taiwan and elsewhere, in



which we've not had a robust mature dialogue with our counterparts in Seoul.

In fact, the relationship that I worry as much about, I think the two bilateral relationships that we have to worry about, one is between China and Japan. The other frankly, and again it's difficult to talk about, is between the United States and South Korea. And here it has been a tag team exercise about who can undermine the relationship most effectively, Washington or Seoul, and together we've joined arms to really do real damage to this relationship, which I think has been vital.

And I think if we're smart, we play the long game and realize that having a good relationship with South Korea matters in the future.

CHAIRMAN D'AMATO: Thank you very much.

DR. CLIFF: If I could just second that final point there about any changes to our force posture involving our allies, even it means we're withdrawing forces from those countries, that has to be part of a negotiated process.

First of all, there may be a propensity to assume that they want certain things that they may not actually want. Despite their persistent complaints about our presence in certain areas, they may not actually want us to leave. They may want us to stay there so they can keep complaining about us.

And second of all, if you are going to withdraw, if you're going to make a concession, then you ought to see what you can get in return for it and not just assume that you'll earn a bunch of goodwill. Every time I ride in an airplane, I see that advertisement for the guy who says in business you get what you negotiate, not what you deserve, and I think that's true in military relations as well.

To talk a few specifics, I would like in five years, I would like very much for the U.S. to have the same number of airbases in Japan as we have now. Now, I realize a couple of those facilities, particularly at Atsugi and Futenma, are highly problematic. So you know if we have to get out of those facilities, I would like to see us get access

to some other facility, and again, it doesn't have to be a permanent U.S. base, but a place or a sovereign U.S. base anyways, but a place where we can put our airplanes down and operate out of in the event of a conflict.

Second of all, we, as I said, I would certainly like to see more robust defenses of various sorts at the bases that we do retain in the Pacific, and then finally I would say we need at least one more aircraft carrier stationed in the western Pacific. More would probably be better, but I'm trying to be realistic here. But at a minimum, we really need another carrier.

One carrier by itself, which is what we would be looking, could be looking at in the early stages of a conflict, really doesn't buy you a lot. You need at least two.

CHAIRMAN CO-CHAIR BRYEN: As we saw in '96, in fact. There was two that was required.

VICE CHAIRMAN ROBINSON: Yeah.

CHAIRMAN CO-CHAIR BRYEN: Thank you very much.

CHAIRMAN D'AMATO: Thank you.

CHAIRMAN CO-CHAIR BRYEN: Thank you all.

It was very helpful.

CHAIRMAN D'AMATO: Vice Chairman Robinson.

VICE CHAIRMAN ROBINSON: I too want to chime and commend the panel. This has been immensely important, and I think we're right on the money. From my perspective, I just got back from Tokyo and Taipei for the Commission and had an opportunity to meet with senior officials in the national security establishments of both countries, and it certainly tracks well with much of what you're talking about.

I would only add one other relationship to Dr. Campbell's very good analysis of Tokyo-Beijing-Washington-Seoul. Tokyo-Seoul is not exactly going swimmingly, is a vast understatement. Obviously, Japan is likewise quite disheartened with the present direction of the North Korean crisis. But that's, in a sense, a subject for another day because of its complexity.

I wanted to just go back to Dr. Mulvenon's interesting comment about a window of danger and vulnerability. I think the time lines are important here, and I'm wondering about whether I can get your view, if you didn't already give it, on exactly what you think is the window of maximum danger, so to speak, from a timing perspective, whether it's between now and 2012 or whatever it might be, and also get the other panelists take on that.

Because, again, we have our own, I think, view at the Commission as to what the evidence tends to show us, and when we might reach a breakpoint where things could actually start improving and, in effect, de-escalating for a host of reasons, but I would be interested in that window of vulnerability and timing.

Second, we were getting to the issue--my second question--with Dr. Cliff who offered that two carrier battle groups is clearly required, for example, in the way of forward-deployed U.S. capability that any prospect of prevailing in a worse case Chinese attack on Taiwan.

I'm interested in all of your views, even though this is a very general question, and you've been all over it in the panel today, but what, no kidding, would the requirements be in an ideal world, understanding our diversion of attention and resources in Iraq and elsewhere, what do we really, no kidding, need to respond--forget deterrence for a moment--respond militarily to this sort of worse case Chinese military scenario with Taiwan? And is it your view that PACOM, the U.S. military more broadly, has any intention to realize that kind of requirement scenario?

Or whether we're just going to have, in your view, shortfalls that persist and arguably persist dangerously?

DR. MULVENON: Commissioner, I would say that one piece of good news is to fill the gap between a future point in which we have a second forward deployed carrier that PACOM has clearly and forcefully and publicly declared that they're going to increase the rotation of carrier strike groups in the area in and around Taiwan during the months

between May and August when the conventional wisdom is that this is most likely that the sea state would be most conducive to trying to get across the water for the Chinese.

And doing that, even in the context of the tremendous pressure on our global deployments in the Gulf and in other places. So I think as a short-term gap, I think that highlights PACOM's creativity in dealing with, you know, without having to have their own BRAC globally and realizing the tremendous dislocations that would occur from either choosing Hawaii or Guam as a place for a carrier, to know that during those key months that they have that kind of added capability near by, within a few days steam.

Now, one of the key issues, however, is whether the conventional wisdom about May to August attack is actually right, and that gets to my window of vulnerability discussion. I went out on a limb about nine months ago and said that I thought frankly that 2006 was a pretty dangerous year in my view.

And 2006 was a dangerous year because I felt a number of trend lines could potentially converge. One is the domestic political line in Taiwan as it related to constitutional revision. And despite--and a number of things troubled me on this front, and here my Jesuit education helps because these are largely theological discussions about the future, but was that President Chen in his inauguration speech was very clear in Chinese to say that it was his personal opinion that constitutional revision should not touch the parts of the constitution that dealt with national identity.

He has subsequently tried to shore that up. My concern is that if you're a daily watcher of Taiwanese domestic politics, as I am, it is a pretty aggressive food fight most of the time and I can't believe that--I can easily envision a scenario in which the Taiwan Solidarity Union acts as the bad cop and puts forward some very aggressive constitutional revisional proposals next year, that the Chen administration simply says we're bowing to



the will of the people, and one can imagine the sort of food fight that erupts from that.

The key, the reason why I think that is important is because without getting into the, again, theological discussion about whether time is on Taiwan's side or time is on China's side, I happen to believe time is on China's side as we go forward, is that one troubling comment that I was consistently hearing from Chinese interlocutors is the international community has a very short memory about our use of military force, you know, after Tiananmen, the Japanese lifted sanctions after three months and other things.

If we did something in 2006, it was posited, the international community will largely have forgotten and forgiven by 2008, and our big concern about having an unimpeded Olympics that doesn't have a sort of 1980 Moscow boycott scenario goes away. And so those two factors together mean that I'm going to be especially vigilant next year watching some of the trend lines as it relates to political changes in Taiwan.

DR. CAMPBELL: Thank you, commissioner. I want to answer one part of this and then kind of ask us a little bit to go further on this. If you think about conflicts in the major places in northeast Asia might actually develop, I'm not really clear how a war would start on the Korean peninsula, but I have a very good idea how it will end.

Okay. I think the reverse is true across the Taiwan Straits. I have a very good idea how it would start and I'm not very sure how it would end. And so one of the biggest problems that we have, and I would just urge the commission to think a little bit about this, is that the way you are positing this, and I'm trying to learn from our period in the 1990s, is that you're talking about this urgent response in the first couple of weeks.

I'm less worried about that than I am about what do you do for two to five to seven years? And I think when you start making those calculations, I think you arrive in situations that are very difficult to sustain, and so one of the issues that you always ask yourself, if we went to, quote,

"war," if there was a conflict which we all want to avoid at all costs basically, what is it that we would be fighting for?

Would we be fighting for Taiwanese independence? Would we be fighting to separate the forces so that negotiations could begin? Would we be fighting to reestablish the status quo antebellum? And I don't think these are issues that we've begun to debate. Clearly, we don't debate them in government.

You know one of the things you find out about government is that the hardest issues very rarely get tackled. That's really your guys' job, and so the way you're positing this is the easiest part of the equation, and I'm sorry to tell you this, but I mean how you handle the first couple of weeks, you know, I think we can meet that challenge, it will be hard, there's lots of stuff that we can work on. It's the longer-term things that I don't think we as a nation have really begun to think about, and actually the more I think about these

things, the more it forces me back into let's do whatever possible to avert these problems.

DR. MULVENON: If I could just make one short point--I'm sorry, Roger--some of the most uncomfortable and unsatisfying meetings that I've attended in Hawaii are the ones where we try and talk about end state, and we say, you know, logically you should posit an end state and then work backwards to determine the kinds of military conflicts you want to fight and how you're going to maintain escalation control.

But end state is a political discussion that people who do planning don't want to have because that's the politicians are going to sort that out later. But if you don't think hard about whether you want status quo antebellum, which I personally believe is impossible in a U.S. military conflict with China, that in order to restore the semblance of what had happened, of the state of the world before. The world will be fundamentally changed if there's a shooting war with China over Taiwan and the idea that our military operations

could restore this pristine world from before, I think is highly dubious.

DR. CAMPBELL: Maybe not so pristine.

DR. MULVENON: Right.

DR. CAMPBELL: But some workable facsimile of Taiwan--

DR. MULVENON: Right.

DR. CAMPBELL: --that has some nebulous status; right?

DR. MULVENON: Right. But the idea of thinking about what they call "phase four operations," which is, you know, are we actually occupying Taiwan? Is it an unsinkable aircraft carrier in the western Pacific? These are very difficult issues that are not being confronted head on that hard thinking is not being--enough hard thinking is not being done about. But to me they are the whole ball game.

VICE CHAIRMAN ROBINSON: Yes, please, Dr. Cliff.

DR. CLIFF: I just want to say I agree with both of them on that. It's a very important point

and I don't have anything to add to what they're saying, but it is something that needs to be looked at.

Going back to the issue of a window of vulnerability, up until about a year ago, I was actually saying that I considered a very dangerous period to be the 2005 to 2008 period. A couple of things have happened over the past year that not necessarily in terms of military vulnerability but in terms of the potential for conflict. A couple of things that have happened over the last year that I think have given us some breathing room, one was the fact that the nominally pro-unification parties in Taiwan maintained their control of Taiwan's legislature, and which I think has caused Beijing to sort of sit back and see how things develop over the next three or four years.

The other development is the revisions to Taiwan's constitutional procedures that happened early this summer that have set a very high bar now for making any changes to the status of Taiwan. In case there's people who aren't aware of the

specifics, you now need three-quarters of the Legislative Yuan to agree to a constitutional revision and it will then be put before the populace and you need 50 percent not of voters but of eligible voters. Now, in the U.S., we have trouble getting 50 percent to turn out. So nothing could pass by that standard in the U.S. Taiwan has better turnout rates, but still to get 50 percent of all eligible voters to vote for a constitutional revision would also be quite challenging.

So it's not really possible for a party that has a bare majority to ram something through over the objections of the remainder in Taiwan. So really any fundamental changes to the name of the country or its alleged territory and so on is going to require pretty close to consensus in Taiwan. So I feel better about that.

Nonetheless, I don't think we're out of the woods, and here's the way I look at it. If I was in Beijing in 2000, at the beginning of 2000, I would say, well, you know, I don't like Lee Teng-hui, but

at least he pays lip service to unification and at least the KMT is in control of the legislature.

And in 2005, I would, after Chen Shui-bian was elected, I would say, well, I don't like Chen Shui-bian, but at least the KMT and People's First Party are in control of the legislature.

Now, fast forward to 2007, December 2007, if now the pro-independence parties take over the legislature and then another pro-independence candidate is elected president in March of 2008, and you're sitting in Beijing, and you say I don't like the way things are going in Taiwan. This is not a country that appears to be moving towards unification with the mainland, and if those political events were to occur, then I think at Beijing, there would certainly be people who would decide it was time to convene and talk about what the long-term solution to Taiwan is going to be and it appears that just waiting for Taiwan to return to the fold isn't working, so what are your options then?



On the military side of things, I mean I think from Beijing's point of view and frankly from my point of view, I don't see a time when trend lines start to walk backwards to the U.S. direction. I think because of the advantages of geography that China enjoys and the types of modern systems that initially it has been acquiring from Russia, but now its own indigenous defense industries are starting to turn out, this is a country that is going to have an increasingly capable military and although it's not--as I said earlier, it's not going to catch up to the U.S., it's going to narrow the gap, and for that reason we have to make sure that we keep running to stay ahead of them.

And there are specific capabilities that we need to focus on, and to answer your earlier question about what it takes, I don't, I haven't done that kind of detailed analysis where--we've done it at RAND, and we have another study to do it again--but obviously when you compare the results of analysis to what actually happens on the battlefield, the divergences are many times--the

average deviation is much larger than any of the average deviations you got in your experimental analysis.

But I would like to talk about certain types of capabilities that the U.S. needs to focus on. One is the ability to project air defense or conduct air defense over long distances, and I frame that in kind of vague terms because the specific solution, there's more than one possibility.

One is something like the F-22. Another, though, would be a very long-range sea-based surface to air missile system, something that we were developing at the past and have not been pursuing with as much vigor recently. We need, you certainly need stealthy platforms to operate in the type of surface-to-air missile environment that China will be throwing at us.

U.S. Navy once was very much focused on anti-submarine warfare. That is something that has received less attention over the last decade, although to their credit, the Navy is now reenergizing that particular mission. You certainly

need the capability, as I think one of the earlier questions alluded to, to find and attack fleeting targets in China, whether those are surface-to-air missile launchers or ballistic missile launchers.

CHAIRMAN D'AMATO: Let me just cut this short for a second, if I may, because we've got-- we're late, and we've got a couple more quick questions.

DR. CLIFF: Sure.

CHAIRMAN D'AMATO: Commissioner Mulloy.

COMMISSIONER MULLOY: Thank you, Mr. Chairman. Dr. Campbell, I want to direct a question to you. First, I want to thank you for being such a great help to this Commission. You appeared at one of our very first briefings, helped us to think about how we ought to proceed, and so we're very grateful for your assistance to us over the long term.

Our charter, given to us by the Congress, tells us that we should review the triangular economic and security relationship among the United

States, Taipei and Beijing, including Beijing's military modernization.

So I think somebody who was putting this together thinks that the economic is tied somehow to Beijing's military modernization. I want to pursue that.

Dr. Campbell, you told us that the Chinese exceeded their military goals or what you thought they could do back in '95, and you found the same trend has been going on since. I think the people who negotiated the WTO agreement find that they've exceeded what we could not have imagined that we would now have a \$200 billion trade deficit with China, that we would have R&D moving out of this country by our major corporations setting up R&D facilities in China, and helping to build China's comprehensive national power.

Now, some people will say that's good and it's good to have those kinds of relationships. In my head, I see the trade, we've got international rules, but investment, there are very few

international rules. We can do things what we want, how we want, if we decide to do that.

Now, we just got back from China. The Chinese have incented programs to move U.S. corporations to move R&D, to move all this investment to China, and then we have these "big box" retailers which then bring the stuff back and the who question of how they operate and whether they give health care, economic incentives. So there are a lot of things you could do if you wanted to change this.

CHAIRMAN D'AMATO: Do you have question?

COMMISSIONER MULLOY: Now, my question-- yeah, I have a question--here's what I want to know. Do the military guys, you guys who are focusing on all this, and I ask you, Kurt, because when I first met you, you were in the Treasury Department, and I think you worked there under Bush I and early Clinton, so you had some sense of the integration, do you see that our current economic investment and trade policies are more or less feeding the beast in terms of China's military strength and that we ought

to at least be cognizant and begin to rethink some of where we're headed economically in this relationship?

DR. CAMPBELL: You know, it seems to me, Pat, that that is the largest and most difficult question. One of the things that people will say and just throw off in an offhand way, well, what's your strategy for China? Well, engagement. Right, we're going to engage; right?

And that's based on the belief that over time that China will mellow, that we will maintain our dominance, and that China will integrate easily economically and that we will maintain very strong upper hand on economic relations, and I think what we're finding in all aspects of our engagement strategy is that, you know, China has grown militarily a little bit faster than any of us had anticipated by the way.

They are competing economically much more aggressively than many of us would have anticipated. I would just say that for some of this you got to say shame on us, to be perfectly blunt, and I'm not

talking simply about outsourcing jobs and stuff. If you ask who is paying for the Iraq war, largely it's China, because we're not paying for it; we're putting it on the national credit card. And if you look at, you know, who's made most of the investments inside the United States over the last five years, it's mostly come from Asian treasuries.

I think ultimately China's challenge to the United States is much more likely to be commercial and economic in the short run and probably strategic and military in the medium course.

The question about whether their vast military or vast economic growth feeds, quote, "feeds" their ability to make military investments, the answer to that is absolutely. Now, how do you go about that, mediating that? Do you somehow go in and say, well, no, we can't trade with China.

COMMISSIONER MULLOY: No.

DR. CAMPBELL: That doesn't make sense. I think the larger problem that we need is we often talk about strategic dialogue with China. I think the fact is that we have not had true strategic

dialogue in which we are able to ask uncomfortable questions about where China is heading, and it seems to me we have a little bit of a double standard. We press some countries very hard in Europe and elsewhere and China perhaps not as hard as we should about certain issues about where we think they're going militarily in particular.

And for that, I think Secretary Rumsfeld particularly in Shangri-La did something that's quite important. I think ultimately China's challenge has turned out to be much more significant and much more in our face than we had anticipated just a couple of years ago.

And that's one of the reasons why I think, you know, while everyone else is focused on other issues, it's great that a small group of people have been constituted to really consider what I think is probably the biggest foreign policy challenge facing the United States.

COMMISSIONER MULLOY: Thank you.

CHAIRMAN D'AMATO: Thank you. Commissioner Wessel.



COMMISSIONER WESSEL: Thank you, Mr. Chairman, and than you tot he panelists. This has been extremely valuable. Let me take this a little further if I could and get your advice further in terms of force projection. We've seen China have a dramatic increase in the need for raw materials, resources and is going all over the globe now, iron ore, et cetera.

We've seen increasing stories about "string of pearls" as they look for new basing rights, et cetera. We have estimates from some U.S. interests about China's dramatic increases in its shipbuilding capacity, oilers, et cetera, and that within ten years, I believe, they may have a Navy that matches our own in terms of numbers, not necessarily in capabilities.

What information from your looking at doctrine, from looking at Chinese capabilities, et cetera, what do you think China wants to do in terms of having more of a "blue water" navy? How soon does that happen? We've all been talking about

Taiwan. Shouldn't we be looking beyond that time frame? Any information that you can shed on that?

DR. MULVENON: Two things. I think strategically we should think about the following focal point. China currently enjoys and relies on U.S. provision of freedom of navigation. Okay. That's the key dynamic. I mean if you think about world history in sort of a longer term. The key fulcrum point would be what point in the future does China actually believe that it's no longer in its national interests for the United States to provide freedom of navigation? I actually think that point is fairly far out there.

DR. CAMPBELL: Stated slightly differently, at what point do Chinese believe that they have to also be involved in the maintenance of freedom of navigation?

DR. MULVENON: Right.

DR. CAMPBELL: And that they cannot trust simply the United States to play that role? I think that's a different way.

DR. MULVENON: No, it's precisely what I was trying to say.

COMMISSIONER WESSEL: But do we see, you know, Unocal. We see again iron ore and many other things, interest in Brazil, all over the globe now in terms of resource acquisition. That's not a decision that comes overnight.

DR. MULVENON: No.

COMMISSIONER WESSEL: Do we see them moving towards that concern and wanting to plan for greater force projection of their navy or are we not at that point yet? What are you seeing in terms of writings and concerns within China?

DR. MULVENON: Well, I think we have imbedded our discussion of it with a couple of pieces of what now turn out to be largely mythology, which, you know, particularly this notion of the island chains, if you will. You know Admiral Leahaching [ph] did write about it, he did talk about it, but deeper examination of internal navy doctrinal writings fails to uncover a single reference to any of this, and, in fact, it's much

more operationally focused on the missions and it's more mission driven, and so the first hope I would have is that we could sort of consign Admiral Lee O's [ph] comments as sort of a nice poetic metaphor, but, you know, shouldn't be the overarching framework we use for thinking about how the Chinese view power projection in the maritime realm.

They still have a very significant naval projection power issue to deal with in a Taiwan contingency with the United States. I don't think they have the luxury of beginning to think more broadly about this issue until they get that nailed down.

That said, I do agree with the Pentagon's military power report that there is an increasing amount of evidence that Chinese military modernization has grown beyond the development of the niche capabilities necessary in a Taiwan situation and that we are looking at a broader modernization program that has important implications for other contingencies in Asia, and here I would only highlight that I recently went

through an exercise with a U.S. government agency that wanted to think, in fact, about what is China's military strategy beyond Taiwan?

Let's assume the Taiwan issue goes away, and regardless of whether it was by war or by peace or by vote or whatever, what would their military strategy look like? And I think that the kinds of discussions we had and the kinds of dynamics I particularly see in Sino-Japanese relations, that the interesting proxy conflict that might be the first to emerge is the friction between an increasingly independent Japanese Navy and the protection of its own regional resources on the Shelf there and the Chinese Navy, and that, in fact, the Chinese might view that as a proxy discussion for not wanting to directly confront the U.S. Navy head on at the outset but trying to probe some of those discontinuities in our relationship with Japan.

DR. CAMPBELL: I like James' answer very much. I would say what's interesting if we've talked about all the things that China has done, and

I think there have been many important things, and the things that I think James laid out that they could do in the future. There are some surprises though of things that they have not done that one might have expected looking back a decade.

I would have anticipated by now a larger focus on long-range nuclear weapons. I thought that was possible. I think we could see that in the future, but it has not been an area of primary focus.

Number two, I think most of their naval operations have been littoral rather than long range naval operations. I think there are obvious reasons behind that, but I would have still anticipated more than we have seen to date, and lastly I would have seen, I would have thought we would start to see things that looked like military alliances, where Chinese forces would basically deploy and train more with other countries outside of its immediate sphere. And those were things that I might anticipate in the future, but I think their absence suggests on some level that they appreciate that one

of their biggest challenges is that dealing with the country that will not yield its position in any way easily in the international system, i.e., the United States. And that would have been the case if we were challenged by Japan and Germany in the 1990s, which was not anticipated, and it certainly is the case vis-a-vis China now in this new century.

DR. CLIFF: If I could just add a couple of observations to that. If you look at what China's military is developing in terms of different types of weapon systems, not just its military but its defense industrial complex, they are developing just about any kind of weapon system you can think of or name with just a few exceptions, and the most striking ones to me are they are not currently developing a long-range bomber, they're not developing long-range transport aircraft, and they're not building an aircraft carrier.

And now that could change. You know they're currently formulating the next Five Year Plan and maybe there will be aircraft carriers and bombers and so on in it, but they're a long ways

from having that kind of capability. Even if you started building an aircraft carrier today, it wouldn't be operational for about five years, and I'm just talking operational in the mechanical sense and probably another decade before you could actually effectively learn how to conduct the complexities of aircraft carrier based operations.

So what that suggests to me is that China's military planners are not currently looking at a global power projection capability. But that doesn't mean, as James suggested, that they're not thinking about a regional power projection capability, and I certainly agree with James that Chinese strategic thinkers are not thinking, well, once we solve the Taiwan problem, then we won't need a military anymore.

They want China to be a major world power that has all the accoutrements of that and that includes a world-class military. But for the near term or medium term, they have enough challenges in their own region that that's their focus. So, yes, that could include increasing "blue water" naval



capabilities, but we're talking blue waters in the Pacific mainly. We're not talking about a military that really is thinking about operating more than just for show outside of the Pacific. In particular, I don't see China, especially with India in the way, doing a whole lot in the Indian Ocean or Persian Gulf any time soon.

CHAIRMAN D'AMATO: Thank you very much. Thank you very much, Commissioner Wessel, and thank the panel, all three of you, for a very provocative and very interesting discussion. I know you're going to be getting the transcripts back from us for your editing and we look forward to working with you.

Thank you very much. Commissioner Bryen, you've got the next panel. We're running a bit late so we want to get moving on this panel. Commissioner Bryen.

CHAIRMAN CO-CHAIR BRYEN: We've reached Panel V of the day, and this panel will examine Taiwan's self-defense needs and risks both to Taiwan and to the United States.

We have four members of this panel. First, Dan Blumenthal from the American Enterprise Institute, who previously served as Senior Director for China, Taiwan and Mongolia in the Office of the Secretary of Defense of International Affairs.

Before his service at the Department of Defense, Mr. Blumenthal was practicing law in New York. We won't hold that against him however.

Dr. Tom Christensen is Professor Politics and International Affairs at Princeton University. His research and teaching focus on China's foreign relations and the international relations of East Asia.

Before arriving at Princeton, Professor Christensen taught also at Cornell University and MIT.

Dr. Adam Cobb joins our panel. He writes and teaches courses on strategy, counterterrorism, critical infrastructure protection and Asia Pacific security. That's quite a bundle of responsibilities.

Prior to joining the faculty of the U.S. Air War College in 2005, Dr. Cobb was director of a think tank in Sydney, Australia. He also served as the Special Director for Strategic Policy in the Headquarters of the Royal Australian Air Force and as a Senior Defense Advisor to the Australian Parliament.

To further confuse his life, he also served on the Congressional Liaison Staff of the Australian Embassy in Washington, D.C., and on the staff of a member of the U.S. Congress. That's quite a tour de force I must say.

And finally, we have Mr. Fu Mei, who chairs the editorial team for the Taiwan Defense Review. He is a leading authority on the Republic of China military and is a seasoned writer and researcher who has published numerous articles about Taiwan's armed forces.

So we have a panel that I think certainly is capable of addressing the issue that's been posed which is the overall analysis of what Taiwan's defense requirements are, how Taiwan is addressing

that now, what it should be doing and what the United States should be doing.

I want to start with Mr. Blumenthal and move from my left to right on the panel. Please summarize. Because of the lateness, we lost about half an hour. If you would summarize your statements for us, we'll put the full statement in the record, and it will also give our commissioners a chance at the end to ask questions.

Mr. Blumenthal.

MR. BLUMENTHAL: Thank you very much to the Commission and to Dr. Bryen for allowing me to speak on this important topic, and I think as I think Kurt Campbell said before, it's just very important that this Commission keep American policymakers focused on the challenges posed by China's rise. So I just want to commend your work before I begin.

I think what I want to briefly do is start off with something that a lot of people lose sight of when they talk about Taiwan's defense, and I think what that is is that Taiwan is trying to do something very difficult, which is consolidate a

democratic transition at the same time as it faces one of the most daunting military challenges in the world.

There are a lot of transitioning democracies who need to establish civilian control and professionalize their militaries and are forming their militaries, but Taiwan's window to do so is a lot less than some of these other countries.

And I don't need to review the history in detail, but by the time President Chen took power in 2000, he was inheriting--it was the first time the opposition had gained power in Taiwan's history, and he was facing, if no longer a party military, a military that in its senior ranks, at least, was still very influenced by the opposition party and hostile, at least ideologically, to what they thought President Chen was trying to accomplish.

Also, within the senior-most ranks of the military, you had a problem of a military education system that they all had come up in which had viewed the DPP, the now ruling DPP as part of the internal enemy.

So that's just where he began in terms of trying to take the reins of military and defense reform. You had to that the problems that the military had in terms of being isolated for many, many years, being Army heavy and so on down the line, and you see the challenges that Chen and his people faced, which again are not so different from that of other democracies, but at the same time that this was occurring, we all back here were realizing just how fast China's military was improving.

So these dual challenges I think are often lost when we all tend to blame Taiwan for its, you know, for its slowness, which I think is a fact, in reforming its military.

President Chen also faced resistance to some new defense ideas that he had, particularly one that translates roughly into decisive operations offshore. Both the Taiwan Army and the general brass just didn't like this change. The idea that Chen had was that he was going to try to move the military into engaging the enemy much farther out, away from Taiwan's civilian population, focused much

more on air and naval assets, as well as C4ISR assets, and in order to detect emerging threats as they emerged, this just being a reflection of the fact that Taiwan was now an advanced industrial democracy and less able to take civilian casualties or any kind of pressure, a lesson, I think, from the 1996 crisis.

Now, where are we today? There is, I think, a lot of problems, a lot of criticisms of Taiwan's defense establishment that are warranted. The Bush administration should be lauded indeed for approving a \$30 billion arms package in 2001. It was unrealistic to begin with to think that Taiwan would be able to acquire these weapons in a short time frame, given a \$400 million procurement budget.

But, of course, back in the United States, people were looking at the Chinese military threat and looking at the fact that Taiwan was, quote-unquote, "slow" in acquiring the major weapons systems and had concluded that Taiwan as a whole wasn't serious about its defense. As I pointed out,

there's more complexity to that, and I'll sort of play this out a little bit more.

The programs themselves were quite complicated, particularly the submarine program. You had to convince the Taiwan legislature, a much more activist Taiwan legislature, to sign up to a very expensive program on a submarine whose design no longer existed in the United States, with European partners who no one who was willing to sign up say in advance that they would be willing to team with the United States, and then we had to go brief the Taiwan legislature and tell them, you know, by the way you're buying this submarine that's enormously expensive, but it doesn't exist.

So, you know, ante up the money and we'll --it was a tough sell, let's put it that way. Taiwan did make some progress on some of the weapon systems, the Kidd class destroyers, C4ISR in a limited fashion, linking some of the platforms with the command centers, and buying early warning radar.

The administration started to put a lot of pressure on Taiwan to move out more quickly,



particularly on the arms package that was passed, made a public speech what Taiwan's defense priorities ought to be in the areas of first, missile defense; second, C4ISR; and third, anti-submarine warfare. Made a public speech about this, but again the mechanisms are not well in place with Taiwan, considering the amount of programs that Taiwan has and the amount of things that we want them to do, to authoritatively and continually discuss with them what they need to do and mentor them in what they need to do.

So we put forward this, the United States government put forward this list of priorities. The top levels of Taiwan's government started to feel the pressure and so put forward what is now known as the "special budget" for PAC-3s, for P-3s and for submarines, to meet those priorities that we laid out for them. They tried to rush it through--this was already 2003--in order to respond to administration pressure and then it got mixed up in pure partisan politics, and I think that's where we are today.

I think that now we've run into the next problem which is that the Pan Blue coalition of KMT and PFP have now not even let the special budget go to the defense committee for debate. They've prevented that now 28 times. This is a purely cynical maneuver because they've asked for every single one of those programs when they were in power.

A lot of it has to do with--a lot of it has to do with just a pure dislike for Chen Sui-bian, ideological opposition to Chen Sui-bian, but when you go to Taiwan and you talk to members of the defense committee across the party lines, serious people in the KMT and the PFP, you know that there is a deal, but they want to debate, they want to make a deal, they want to put some of those programs in the annual budget, some in the special budget, but their leaders aren't even allowing them to debate, and I think that this Commission and the United States government as a whole should take a much more strong policy of putting the KMT and PFP leadership on notice that they one day want to come

back and lead Taiwan, it's going to be their Taiwan, too, and we know who's to blame here.

Now, we know who is to blame here at this point, at least. Now, I would say in terms of risks, the risk is that Taiwan doesn't move out and that Pan Blues continue to be obstructionist, and Chen Sui-bian has nowhere to go in terms of either increasing the annual budget or getting the special budget passed, and, you know, Americans in general don't see the complexities and nuances of the process that I've just described, go through a policy review and say to themselves, if Taiwan as a whole is not serious, how can we be serious in defending Taiwan, and I think there is a real risk of that happening.

And, of course, with the PLA modernization, which is really designed to pose the question, if you think about it, strategically what the Soviets used to do to NATO, which is, you know, we now have missiles capable of hitting your bases in Japan. We have submarines that can threaten your aircraft battle groups. Is Taiwan really worth it to you? I

think they want to put that thought in all U.S. planners' minds. So you have these two things converging together, and then you have, I think, Americans who want to get out of the commitment emboldened to get out of the commitment.

For strategic reasons, I can't imagine a situation where America would not come to Taiwan's defense. I can't think of one. The stakes are too high. But we may fool ourselves into thinking that we can't or won't, and that's very dangerous.

So with that in mind, I would just recommend, as I said before, that this Commission could play a very serious role in terms of influencing Taiwan to know where the blame lies right now and doing enough to invest in its defense. But also, I think that the United States government has a whole has not done enough in terms of clearing away the obstacles imposed since 1979 on really getting in there and engaging with Taiwan's defense establishment, helping them through their democratic transition, and doing the things faster and harder

that they need to perform their defense establishment.

We haven't had an active duty officer or a senior defense official on Taiwan since 1979. And the fact that we have this commitment or some people want to call this conditional commitment, whatever it is, is just plain dangerous, given the fact that we don't have that kind of authoritative relationship with Taiwan's defense.

If we don't do these things now and help Chen, the Chen government accomplish its military goals, we'll look back at this period and really wish we had. Thank you.

CHAIRMAN CO-CHAIR BRYEN: Thank you. Dr. Christensen.

DR. CHRISTENSEN: Thank you very much. I'd like to thank the chairman and the other distinguished members of the Commission for inviting me here. It's a great honor to speak with you. I submitted a longer written statement, but in my oral comments, I'll just touch upon a few of the points that I covered in that written statement.

My central point is that deterrence in the Taiwan Strait will be a complex policy challenge for the United States and Taiwan moving forward, mainly because of the fast-paced growth in coercive military capabilities on the mainland that you've heard about earlier today, submarines, accurate ballistic missiles, cruise missiles, information warfare capabilities, air defenses, et cetera.

I believe this is true even though I also believe that the current Chinese Communist Party leadership would like to avoid a conflict across the Taiwan Straits if it is at all able to do so.

In fact, I would say that the likelihood of conflict across the Taiwan Strait in the next two to three years is relatively limited. The main reason I say that is the fact that the Pan Blue parties who oppose Taiwan independence have maintained a majority in the legislature in the December 2004 legislative election in Taiwan. This makes it less likely that Taiwan will adopt legal measures or constitutional revisions that might provoke a mainland attack on the island in that time frame.

But that having been said, I think there is significant dangers looking forward, in part, precisely because the Pan Blue parties are in the majority in the legislature, and those relate to some of the issues that Dan Blumenthal just referred to, and that is that Taiwan continues to refuse to purchase certain weapon systems offered by the United States in 2001 and make various other changes in their defense structure.

Deterrence in the Taiwan Strait I think is a very complex challenge because it's difficult for the United States and Taiwan to balance what are the necessary components of any successful deterrence policy, and those components are in some sense contradictory and pull in opposite directions.

The first is the ability to maintain a credible threat of effective military response if China were to take aggressive actions against Taiwan, and the second is at the same time to be able to maintain a credible assurance to the Chinese Communist Party that if it forgoes belligerence against Taiwan, that the United States will not take

actions that harm the CCP's core interests in the Taiwan issue.

If the United States is unable to do that, then Beijing really has no incentive to comply with the demands that it forego belligerence against Taiwan.

What makes this equation even more complicated than it otherwise would be is the growth of the coercive military capabilities on the mainland and the necessary responses that that leads to in the United States and Taiwan.

I think that the Bush administration has done a very artful job and a very good job of creating a balance in its strategy towards cross-Straits relations that addresses these dual requirements of deterrence.

On the side of credible threats, I think the administration has taken various policies that enhance the credibility of deterrent threats against the mainland. Since 2001, as has been mentioned, Washington has offered several defense systems to Taiwan. It has increased military cooperation with



the Taiwan military. It has warned the mainland repeatedly against the use of force against the island. It's enhanced capabilities in the Pacific and it has improved defense ties with Japan which is America's most important ally in the Pacific.

Now, normally, under normal conditions, such activities could severely undercut the assurance part of the deterrence equation. Beijing might fear that these types of policies could encourage Taiwan's eventual declaration of a permanent legal separation of the island from the mainland, and if PRC's strategic history is any guide, when PRC elites see these types of trends in their security environment, they are capable of using coercive force in order to slow, halt, or reverse those trends that they see developing over time.

But I think the Bush administration has handled the situation quite well because it's adopted policies at the same time to bolster assurances. It's adopted policies along those tough defense policies that it's adopted to increase

assurances that the United States is not pursuing Taiwan independence through those actions.

Washington has publicly and repeatedly distanced itself from pro-independence statements from Taiwan leaders and my impression is that this policy has done two important things. It's moderated politics on the island itself about the independence issue and it has given credible assurances to Beijing that the purpose of U.S. policies on a security front is not to pursue independence for Taiwan over time.

I think the biggest problem at present aren't those assurances. The biggest problem at present is Taiwan's relatively weak response to the very real military challenge that it faces across the Taiwan Strait in the forms of those increasing coercive capabilities on the mainland.

Now, I agree with Dan Blumenthal that in recent years, Taiwan has adopted various defense reforms. It has acquired certain important weapon systems, much needed weapon systems like the Kidd class destroyers. It's improved its command and

control system, it's hardened certain assets, and these actions are to be supported and lauded by the United States.

But I still there are very worrying indicators in Taiwan that we need to emphasize, and the first is that Taiwan's real defense budget has decreased since 1998, while the mainland's official defense budget has more than doubled in that period. That's a straightforward indicator.

A second is that Taiwan has failed to purchase some of the weapon systems offered by the Bush administration in 2001, largely because of the stonewalling of opposition legislators in the Legislative Yuan.

In my understanding, two of the items in that 2001 package make a great deal of sense for Taiwan to acquire and I'm not a military strategist. I just study these things from an academic point of view. Those two systems are the P3 maritime patrol aircraft for anti-submarine warfare missions and the mine-clearing helicopters that were offered to Taiwan in 2001 as well.

These systems are relatively affordable and quite effective and I find that they've often been lost in the debate about much more expensive systems and systems that arguably will not provide as much value to Taiwan's defense, particularly in the near term, as these systems would provide.

And in particular, I have diesel submarines in mind there, not just because of the procurement problems, but because of the fantastic cost of those submarines, and the roles that they might play in Taiwan's defense.

The P-3Cs are important because of the mainland's fast-growing submarine fleet. These will pose among the biggest challenges to Taiwan's Navy and to U.S. forces deployed in the theater and the helicopters could also be very useful in mine-clearing operations in a maritime blockade scenario, and mainland military leaders are considering such a scenario in their thinking.

The United States Navy, unfortunately, is relatively weak in mine clearing capabilities, particularly in theater and it takes time to bring

capabilities from out of theater into the Taiwan area.

So if Taiwan does not acquire these systems, it seems that not only will Taiwan be at more risk but so will U.S. forces deployed to the region. Moreover, and this touches on American alliances, I think there will be a greater temptation if Taiwan doesn't acquire these systems to request assistance in these missions from Japan, for the United States to request assistance in these missions from Japan. Japan is very good at anti-submarine warfare. Japan is very good at mine-clearing, and I personally think that such a request by the United States of Japan to play those types of combat roles in a cross-Strait conflict would carry great risks for the U.S.-Japan alliance and for the regional stability looking forward.

And I would just like to conclude with two policy recommendations that flow from my analysis. The first is I think the United States needs to rethink or think harder about the types of arms packages it offers to Taiwan with attention to the

domestic political realities on the island and with attention to the most urgent defense needs, prioritizing the most urgent defense needs for Taiwan.

I agree again with Dan Blumenthal that the Bush administration should be lauded for offering various weapon systems to Taiwan, but given Taiwan's domestic political realities, the package offered in 2001 is simply too large and, as I suggested, I think the submarines carry prohibitive opportunity costs given the tradeoffs in the budgeting process.

The second policy I would recommend, and this is along the lines that Dan just mentioned, that's that I think the United States needs to let the Taiwan public know that legislators who oppose defense spending bills for political reasons are putting at risk Taiwan security in two ways.

One, because Taiwan is not acquiring the weapons it needs; and two, because this is creating an aggravating factor in U.S.-Taiwan relations. And I think most people in the Taiwan public across the political spectrum recognize that the relationship

with the United States is very, very important to Taiwan security looking forward and we had evidence of this when the Bush administration criticized the Taiwanese leaders during the lead up to the 2004 legislative elections for making pro-independent statements. This according to experts in Taiwan on all sides on all parts of the political spectrum had a big impact on the outcome of that legislative election.

There is no reason to believe that U.S. criticism might not be effective on the other side of the aisle in order to spur Taiwan legislators to take Taiwan security more seriously moving forward.

Thanks very much for your time. I appreciate it.

CHAIRMAN CO-CHAIR BRYEN: Thank you. Mr. Mei.

MR. MEI: Hi. I want to thank the Commission for giving me this opportunity to offer this statement.

CHAIRMAN CO-CHAIR BRYEN: A little bit closer to the microphone.

MR. MEI: I believe the primary risk to the United States if Taiwan should continue to have problems with acquiring a sufficient defensive capability--I want to move away from so-called defensive, particular defensive systems--is will be the continuing erosion of deterrence of military conflict across the Taiwan Straits, and if China realizes this and one day decides to take advantage of it, and we can talk about when that window might converge, when China takes advantage of such an erosion of deterrence, the U.S. could be drawn into a war where there could be no winners, and I guess we had talked about, as we heard from the previous panel, the conditions for the termination of such a conflict would be difficult to calculate.

A key concern here is the likelihood would increase significantly of Taiwan actually not surviving a Chinese military attack. And even the U.S. leadership were to decide to go to Taiwan's defense in such a crisis, Taiwan may not have the defense capabilities if they don't invest now.



They may have not the necessary defense capabilities to survive long enough for U.S. intervention forces to flow into the theater. And because of that, a militarily weak Taiwan who is aware that one day they may not be able to survive long enough will be that much more perceptible to PRC coercive tactics and strategies. As a result, the U.S., when the crisis comes, will be faced with a much narrower range of response options because Taiwan is not going to be able to hold out either physically or psychologically, and that the risks of escalation in such a crisis, in other words, U.S. could--in other circumstances, the U.S. could intervene at a much more lower level of military violence than would a situation in which Taiwan is basically unable to last long enough for the U.S. to make such a deliberate response policy decision.

Thirdly, a credible Taiwan defense posture represents not only a military deterrence, but will in the long run be convertible to important bargaining chips at the peacetalk tables vis-a-vis China. So therefore a militarily vulnerable Taiwan

could prove highly subversive to U.S. efforts to eventually broker some type of peaceful resolution to the Taiwan problem.

And fourthly, I think the risk to the United States of a militarily not responsible Taiwan would be China would be able to asymmetrically impose strategic costs on the United States, not only regionally but also on the global competitive theater. By maintaining a critical military edge over Taiwan, hence, the option to threaten the strategic relationships that can force the U.S. to set aside assets, China can force the U.S. to make costly operational allowances in order to adequately cover a possible Taiwan contingency, and that's a fourth risk that I see for the United States if Taiwan does not, you know, live up to its own commitment for self-defense.

Now, one of the things I think we should talk about a little more--I don't know whether we're going to have time for it, but will be what actually constitutes sufficient defense and from what perspective? I guess what constitutes sufficient

defense. Much will depend on what side of the table you're sitting at, whether you're sitting on the U.S. side or sitting on the Taiwan side.

One of the important things that delineates the U.S. from Taiwan thinking is that, for example, the PACOM, the U.S. Pacific Command, seems to want Taiwan to focus on systems and defensive operational capabilities, that could allow Taiwan to lengthen the amount of time they can hold out.

In other words, it will give Taiwan the ability to deny PRC the gaining of air superiority, the gaining of sea control, to actually overrun Taiwan's leadership core or dominate Taipei. The idea is to permit sufficient time for the U.S. to bring its intervention forces into play, and the amount of time that people typically talk about is about five days, at least. It could go up to two weeks depending on the various scenarios that you play out.

So, in this U.S. context, U.S. perspective, you know, things like PAC-3 missiles or P3-C anti-submarine aircraft will make a lot of sense because

that would help, you know, either sanitize the sea room for the U.S. to come in or protect the critical transportation infrastructure from missile attacks so that the U.S. intervention forces or, you know, forces trying to attempt to conduct NEO operations, non-combattant evacuation operations, could enter Taiwan.

However, from the Taiwan side, they seem to look at things a little differently. For example, it is not clear if Taiwan's military, you know, assumes, contrary to what many people in this city believe, Taiwan's military really does not assume that they could be assured of U.S. intervention in time of a crisis. There is some type of a safety deposit box in a bank, the contents of which they are not 100 percent aware. And yet they're being asked to put their faith in that safety deposit box, things like, you know, the JWP, Joint War Plan, that offers very useful guidelines of possible U.S. response action, but it is not the same thing as a defense treaty.

So I think in certain respects, we have to also try to understand why Taiwanese planning accord different priorities to their procurement and development of their capabilities.

Irrespective of the way we look at the problem, whether you are the U.S. or the Taiwan side, or whether you can count on that safety deposit box, I think there are major symbolic implications for the U.S. if Taiwan should fail to pass a special budget or to otherwise reverse the negative trends in its defense spending. Certainly I believe that doing something to undercut the coercive utility of China's growing missile arsenal and maritime interdiction capabilities will be crucial, certainly in the sense that you will allow Taiwan greater ability to deter or resist Chinese coercive action.

And I'll just hop on over to some of the recommendations that I see. I think one of the most important things, be it either short-term or a longer term in terms of Taiwan's military security, will be for both sides, Taiwan and U.S., to work

towards improved interoperability. That, more important I believe than any particular system or systems, will give Taiwan, number one, the capability, physical capability, to conduct meaningful operations once, you know, U.S. decides to have an actual military response because right now the plan, the thinking seems to be they're going to be parallel but largely independent operations between Taiwan and U.S. assets.

So some type of improved interoperability, and we are already seeing things that are being done in this respect, things like the Sismoa [ph] memorandum, there soon will be exercises between Taiwan and the U.S. on communications security, on doctrinal development, on training. These will be, you know, of great value to Taiwan's defense.

Also, echoing what Dr. Christensen has said earlier, I believe the U.S. needs to do a little bit more to make it very clear to the opposition parties in Taiwan that continued irrational boycott of important national defense initiatives would carry long-term implications for U.S.-Taiwan relations, in

that the damages that are done to U.S.-Taiwan relations cannot be readily reversed even if say a Pan Blue government were to come into power in the future.

CHAIRMAN CO-CHAIR BRYEN: Thank you very much. Dr. Cobb.

DR. COBB: Thanks again for the invitation to be here. While I'm currently employed by the United States Air Force and have previously been employed by the Australian Air Force, I speak for neither defense--

CHAIRMAN D'AMATO: Speak into your microphone.

CHAIRMAN CO-CHAIR BRYEN: Can't hear you.

DR. COBB: Okay. Is that better?

CHAIRMAN D'AMATO: Yes.

DR. COBB: Sorry about that. While I'm employed by the United States Air Force and have previously been employed by the Royal Australian Air Force, I speak for neither organization nor for either government. A lot of what I've heard in this session and the session just prior to it, I am kind

of surprised by and interested in. I'm a new immigrant to the country and it's interesting to listen to some of this debate. Thank you.

First of all, in my prepared comments, I looked at the two things, capability and intent on both sides. It seems interesting to me that there's just an assumption that there's going to be a conflict at least in terms of the nature of the discussion. Perhaps we're all just thinking about worst case scenarios here. I don't know.

It seems to me that the window of opportunity going up to the Olympics does make sense, particularly if Taiwan was to miscalculate. It seems to me that the military capabilities that were discussed previously, the emphasis that was placed on those suggests really to me that the possibility of a full-scale invasion from the PRC is fairly unlikely.

However, the ability to deny access to the Straits between the mainland and the island is quite a significant proposition. For what period of time



and so forth is obviously a matter of debate, but that should be a matter of interesting discussion.

Another thing that surprised me was this assumption that America will automatically come to Taiwan's aid and yet you're not planning for it. That's kind of interesting.

[Laughter.]

DR. COBB: It strikes me that if you're going to be that serious about it, then you might want to--I know it's politically difficult obviously--but some interoperability issues there are obviously notable. However, having said all of that, the slice of the argument I want to focus on in my oral presentation is the impact on alliances in the region.

One of the things that I'm not sure that really there is much aware of in Washington is the particular effect that China has had, the PRC has had in its economic engagement in the region. This is particularly important in the Australian context to the extent that it could be said that the Chinese have aimed to and are succeeding in driving a wedge

in the southern anchor of your alliance system in the region.

This is a kind of a strange thing to hear I suppose because Australia has always been there. Every time you've gone, we've come with you willingly. And we've made more than symbolic contributions, particularly if you look at OIF and OEF, the special forces actions in the western desert of Iraq, removing the threat to Israel, so on and so forth, which is strategically pretty important, Tora Bora being another example.

Notwithstanding our military cooperation and engagement with the United States, our economic engagement, our future economic security is very much tied to China, and it has been tied to China in a very short period of time. Within the last five years, Australia's trade with China has doubled. Not a month goes by when another \$25 billion deal has been signed or has been noted as coming up, oil and gas in particular, iron ore, a range of various commodities and so on.

Now, what's Australia's response to this? Well, when the foreign minister is in Beijing in March 2004 and somebody said, well, what is the implication of your alliance with the United States in terms of your economic future with China, bearing in mind that we've just negotiated a free trade agreement with the United States and are in the process of negotiating one with China, the foreign minister came out and said, well, ANZUS is symbolic. Now, that's the first time in Australia's history when any senior government member has questioned the basis or the implications of the ANZUS alliance. It's quite a significant thing, and I would want to impress upon the committee and the Congress the import of that.

Now, of course, he backed away from that once the questions started coming out and the prime minister came out and put his foot down and all the rest of it. But there was a signal being sent there. And it was not the only one. The rhetorical signal was also backed up by a substantive one, or a series of substantive ones, not the least of which

was the Australian support for lifting of the EU arms embargo, which the Pentagon report on China's military capability said not only destabilizes the Taiwan Straits but also puts U.S. military personnel at risk.

This is not something that a close and loyal ally does, I don't think, or should do at its peril. So there's a question with all of that. What's the outcome? What's the possible solution, for the United States, for United States policy?

I would argue that there's a significant strategic incentive to use the free trade agreement that's being negotiated with Australia to actively engage from both sides, both from the United States side and from the Australia side, to more fully engage the United States as an energy customer of Australia.

Now, of course, governments can't force companies to buy things from each other. But they can incentivize the arrangements through which these types of agreements or these types of commercial agreements are made, and the free trade agreement is

a good example of the type of basis that could be used to do that.

Will Australia turn its back when the chips are down? Well, a lot of that depends, of course, on the events that lead up to the chips going down if they do. I think one of the things I perhaps omitted to say about scenarios of when this might happen, I think the anti-secession law makes it very clear China's position on independent statement from Taiwan.

Beyond that, though, I think it was Commissioner Mulloy who was talking about the economic engagement with China, and it seems to me that they have so much to lose by military activity, particularly anything more than harassing attacks, they've got much more to lose by that than they do by engaging in military activities.

Having said that, aside from the anti-secession law makes it very clear that they would, and I have no doubt that they would on that contingency, but beyond that, the assumption that

seems to be in the room that it's an automatic given, I'm not sure I'd buy.

But having said that, some of the things that locks Australia in with the United States, apart from the kinship issue, if you look at real national interest issues, is the fact that our armed forces force structure is now being very closely integrated. It always has been fairly closely integrated, but it's even more so integrated with United States military capabilities, doctrines, structures and so on.

For example, the JSF, Global Hawk UAVs, Aegis class cruisers, these all have been acquired or about to be acquired in the Australian force structure mix. This is not even going near the intelligence side of the relationship. So with that kind of basis, there is not much room for maneuver for the Australian government or for any future Australian. It's not just this one. It's any future Australian government in terms of its economic relations with the PRC and its military relations with the United States.

It could get very ugly, and again the decision that's made on the day will boil down to the circumstances of the situation, as it unfolds, but I think it's important for policymakers in Washington to realize the kinds of pressures that their close allies are facing in these types of situations in order to contextualize the response. If we bear in mind the New Zealand policy in the early '80s of not permitting nuclear ships to visit, that still rankles in many corners in Washington, which I find quite surprising.

In fact, it's one of the first things that most people who meet me say, don't you do a New Zealand. So that, I think, is a mild example by comparison to the sorts of examples that could unfold depending upon the circumstances with cross-Strait relations.

Thank you.

CHAIRMAN CO-CHAIR BRYEN: Thank you, Dr. Cobb. The panel will take some questions now. We'll start with Dr. Donnelly.

HEARING CO-CHAIR DONNELLY: Well, thank you for conferring that degree on me, although I don't merit it. Just a couple of observations. I'm very grateful to Dr. Cobb for reminding us of China's kind of natural resource or energy resource strategy. It's one thing when Sudan or Zimbabwe or Venezuela adopt a lookie strategy, but if Australia were to do the same, it would be much more deeply complicating, but the good news is you can now be as schizophrenic in your China policy as we are, which a number of the other panelists kind of alluded to.

But the question I wanted to invite people to comment on was the one that Mr. Mei raised about the question of legitimate defense for Taiwan, and I'm grateful for Commissioner Dreyer having read the relevant language from the Taiwan Relations Act earlier, because it's clear from that that the measure of defense is really strategic, not narrowly tactical, as has been increasingly interpreted by the United States, and I would suggest that one of the reasons that Taiwan is looking to other kinds of capabilities to generally defend itself or sort of



asymmetrically respond to this China threat is because that it needs to take a broader approach to this idea of defending itself.

We heard from the previous panel about air defense systems based on the mainland that could range entirely across the island, so clearly as a matter of defending Taiwan, the battle space is now so greatly enlarged that it's to include the mainland, and if the United States wants Taiwan to be serious about its own military defenses, that we have to redefine what we interpret as legitimate defense on the part of Taiwan. So that's perhaps a leading question, but I'd like everybody to comment on what they see as being the upper boundary of what this question of legitimate defense for Taiwan might be in terms of acquiring the capabilities to contribute to this larger battle space that's now located or centered on the island, and if we could just go down the panel, that would be great.

MR. BLUMENTHAL: Well, I think Mei Fu hit it on the head when, if you're in Taipei right now, and you're basically told that we may not come but

plan for us to come, and don't plan to do anything on your own, but still we may not come, you understand kind of the problems. You know we obviously are planning--the United States always plans for these sorts of contingencies. I think Mei Fu hit it on the head when he said that Taiwan is not necessarily counting on it, and he therefore introduced into this debate about why it's been a rocky road in terms of the defense relationship.

There are serious debates within Taiwan's military and Taiwan's defense establishment about what constitutes legitimate defense. Now, what is striking is the least popular program in the United States across the board is the submarine program. The most popular program across the board in Taiwan is the submarine program.

The development of cruise missiles and ballistic missiles in Taiwan is an open secret that gets reported on in the press often. Just the basic dignity issue if you're a democratic leader and you've been struck, and you're going to strike back just to keep the morale of your people high plays a

big part, but it's these sorts of things that we're not allowing ourselves to talk about with, with Taiwan in any authoritative manner, and so in some sense we lose a measure of control over the direction that Taiwan is going by having all these boundaries and inhibitions on what we discuss with Taiwan. They are planning for things as, you know, free nations do, that they're going to keep from us, especially when we play these games of--which I understand why we have to play--but from a pure military planning standpoint, they have to go ahead and make plans to be able to respond in case the United States doesn't respond, to be able to hold strategic targets at risk in China, just to show their people that they're doing something.

You know a lot of the rationality goes away once Taiwan is hit, and they know that. So I think that we don't really have--we have publicly made a statement on what we think is legitimate defense for Taiwan and we say missile defense, C4ISR and anti-submarine capabilities.

Now, that, what we're saying is essentially hold and we're coming, but they don't believe us, and so therefore they're not--that's another factor as to why they're not purchasing just those systems that we want them to purchase.

DR. CHRISTENSEN: Thanks for an excellent question. When I look at Taiwan's defense needs, I look at it as you would look at any political actor's grand strategy towards security. That would involve the military components and the foreign relations component, how you maintain solid relations with neutral parties, with potential supporters, allies, whatever word you want to use.

And it seems to me that given the limited capabilities that Taiwan can bring to a fight by its very nature, by the size of Taiwan compared to the adversary it's likely to face, and given the fact that Taiwan will desperately need external support, I think Taiwan needs to be extremely careful about which military plans it adopts. It would be quite possible for Taiwan to recognize, for example, and this has happened in history, to recognize that it

desperately needs to be portrayed as the victim in a military conflict in order to survive because it's going to need external support and it's going to need maybe some potential supporters of China to stand down, at least, and at the same time develop offensive strategies that make Taiwan look very aggressive, make Taiwan look like it's causing escalation in a crisis that exists or in a conflict that exists.

And those two components of their grand strategy would be pulling in opposite directions. And just because of the geography and the general size of the two actors, I think Taiwan doesn't have much choice but to create defensive strategies that give it time to hold out, to let the world decide who the aggressor is, and to decide whether pressure will be put on China to help Taiwan in that situation, and I think particularly counter-value strategies that would attack cities in China or blockade Chinese ports in response to a maritime blockade by the mainland, while understandable for all the reasons that were stated here, would be

fundamentally counterproductive to Taiwan's long-term security because actors, countries who are generally friendly to Taiwan would have their citizens put at risk.

There are lots of Americans in Shanghai. I was just there. You don't want to be lobbing missiles into Shanghai in a punitive way, and if you pick off shipping, you're going to kill innocent civilians, and so those types of things I would say are off the scale.

Where it becomes much more difficult to discern is in the area that you discuss, where there's a specific weapons system directly across the Strait that's shooting down Taiwan planes, can Taiwan therefore take that out? And you know, I'm not a military strategist. I'm not going to be pretend to be a military strategist, but it's a gray area that needs to be addressed and it seems to me a lot of that, a lot of the conclusions that need to be drawn is how escalatory would that action be in that minds of those planning such an action, and

could the United States or other actors do the same thing better in a timely fashion?

And I think that those things would be important calculations to consider if I were a Taiwan defense planner looking at that grand strategy. Thank you.

MR. BLUMENTHAL: I just want to say I wasn't advocating the use--

DR. CHRISTENSEN: No, no. I said it's understandable why people would think that way. That's all.

MR. BLUMENTHAL: Yeah, I think people are-- I think the debate is on in Taiwan, and we need to be aware of it.

CHAIRMAN CO-CHAIR BRYEN: We will come back to you on that at some point.

HEARING CO-CHAIR DONNELLY: Well, if an air defense radar is a counter-value target, we're in deep trouble.

CHAIRMAN CO-CHAIR BRYEN: Mr. Mei.

MR. MEI: I agree with a lot of what Dr. Christensen has just said in terms of Taiwan needing

to portray itself in the right light. But then again, I also want to inject a shot of reality here. What has become increasingly clear, at least to many people in Taiwan, and possibly to many U.S. planners here, is the fact that it will not be feasible to defend Taiwan without resorting to some type of active counterforce operations against PLA air, naval, second artillery, surface to air missiles or command and control sites on the Chinese mainland, and it just, in fact, it was impossible in 1958 to defend Quemoy without resorting ultimately to plans that could escalate the war into certain parts of Fujian province, even up to the use of tactical nuclear weapons.

So with China deploying significant and increasing numbers of tactical ballistic missiles and very soon land attack cruise missiles across the waters from Taiwan, it is just inconceivable for any plans to defend Taiwan either by the Taiwanese themselves or, you know, in cooperation in some capacity with some foreign assistance that does not entail attacking targets on the Chinese mainland.



Now, from an escalation control point of view, would you rather--somebody has to make those strikes, either the Taiwanese or somebody else. Okay. Now, from an escalation control point of view, would you rather that the Taiwanese do it, i.e., in a proxy situation, or have some member of the Seventh Fleet do it?

That's certainly something to think about. I'm not really advocating that we do it one way or the other, but that's definitely something that is worth thinking about in this city.

And unfortunately, many U.S. jurisdictions including the JCS and the PACOM have recently seemed to be leaning towards endorsing the doctrine that, no, no, no, it's probably not a good idea to provide Taiwan with what is conceived as offensive capabilities. Okay. But, see, how do you define defensive? We've talked about what do you define defensive. How do you define offensive? We sell our missiles to South Korea so they can shoot at North Korean surface to air missile targeting radars.

Well, why couldn't you sell that to the Taiwanese? Why was that declined to Taiwan earlier this year? Taiwan asked for satellite-guided bombs, JDAMs, GPS-guided bombs. That bomb is no more accurate than the laser-guided bombs we've been selling them in the last 20 years. In fact, it's less accurate, and it's more prone to outside factors such as us turning the switch on on the GPS that they could use to guide the bombs.

But why is that considered offensive? So these are issues, I think, we need to delve a little deeper into, you know, in addition to whether Taiwan, we should wedge Taiwan towards counterforce or countervalue. In fact, perhaps by providing them with certain types of capabilities and weapons, we can actually steer them away from countervalue type of thinking and into counterforce type of mission planning.

CHAIRMAN CO-CHAIR BRYEN: Thank you. Of course we've got to get them to pay for them, too. Dr. Cobb.

DR. COBB: I think when it happens--

CHAIRMAN CO-CHAIR BRYEN: Small point, but I thought I'd remind the panel that we're kind of stuck at the moment.

DR. COBB: Actually it's a pretty important point, but beyond that if you want to start talking tactics of how it's going to unfold, they'll do what they've got to do. But having said that, in terms of the force package that was discussed earlier, you can't just, buying a submarine is not like going down to a car yard and picking out one in blue that you like with a six cylinder engine. It's a capability that it takes a fair bit of time and expertise to field.

Having said that, the Australians build submarines, called Collins and it comes in a nice black. I recommend it. Of course, they won't sell it to--they won't sell it to the Taiwanese because of the impact it would have on their relationship with China, as I was mentioning before, but it's worth at least investigating that one.

The problem is with those types of capabilities you're taking, it's too long to field.

In the short term, and if you're talking about 2008 time frame which I think is a very reasonable one, then the focus on the Patriots I think is an important one, on ISR capabilities, to be able to correctly identify EW, counter-EW, these types of things, that can be relatively inexpensive, comparatively speaking.

And that can have an immediate impact on the types of operations you may be engaging in or by "you," in that case, I meant the Taiwanese. Again, this cooperation and coordination issue is particularly important.

Oh, sorry. Just back on the Patriot issue. It's quite likely--let's put it another way--it's not hard to envisage that the Chinese may want to impact on American military bases in the region, maybe even in a preemptive way.

It's kind of alarming that those bases that are the most proximate and most likely to be touched, reached out and touched by the Chinese, don't have Patriot missile batteries. That strikes me as a matter of concern.

Moreover, I'll leave it that for the moment actually.

CHAIRMAN CO-CHAIR BRYEN: Good because we're running really late. Incidentally, there's other things in Taiwan that have to be defended like nuclear power plants.

Commissioner Dreyer.

COMMISSIONER TEUFEL DREYER: Yes. First, with regard to Dr. Christensen's excellently made point about hitting Americans in Shanghai, one would hope that the opposite would also deter the mainland since there are also a great deal of Americans and innocent civilians in Taipei and on shipping that might be hit by the mainland.

And I realize, of course, you made that in the context that Taiwan needs to portray itself as the victim, and China does not worry about things like that.

Okay. That said, I would argue that what China is doing with Taiwan is not primarily a military game, it's a mind game, and so we line up all these missiles and then we have what you

gentlemen mentioned, there is you can't count on United States coming to Taiwan's aid. There may be an answer in a safety deposit box somewhere, but no one is allowed to open it.

And hence, this weakens the resolve of Taiwanese to defend Taiwan because they can't be sure what's in the safety deposit box. Okay. That said, it is important, of course, from the point of view of the mainland playing this game, that Taiwan has some sort of credible deterrence. And I'd like to hear what, in addition to the reconnaissance plans that Dr. Christensen mentioned as a good idea, what other weapons you think Taiwan should get in order to mount a credible either deterrence or ability to hold off mainland attack until the safety deposit box is opened and we find out what the United States plans to do?

Dr. Blumenthal.

MR. BLUMENTHAL: Well, I guess it's not really fair since I was involved in the prioritization when I was in government but--

COMMISSIONER TEUFEL DREYER: That's all right.

MR. BLUMENTHAL: --but I think as you well pointed out, it is very much a psychological mind game and there are all kinds of elements of strategy here that include getting into Taiwan's internal political system, organizing, you know, peace rallies funded by China against the purchasing of arms, psychological intimidation.

I think that number one is missile defense far and away. I think that the value of, you know, in Taiwan you'll hear, well, we can't possibly keep up, you know, they're deploying 150 missiles a year, they have 700 ready. What are a few batteries going to do?

Well, it is a psychological game in a lot of ways, and once you've deployed batteries of PAC-3s and done the whole comprehensive picture of also passive defenses and hardening, and the panel before discussed continuity of operations and continuity of government, you've done the whole picture of the early warning radars, also sea-based missile

defenses, I think are going to be crucial, I think what you've done is you've forced China to take it to the next level.

So right now there's almost no missile defense on Taiwan, so a certain volley has a certain psychological impact. Well, if you've deployed missile defenses, China has to think right away about escalating, even before they've fired, and killing more civilians and killing and shooting at things that aren't hardened.

So I think the value, the right way you put it, in terms of the mind game that China is playing, and missile defense is multiplied, not just from a military point of view but from a political point of view, too. I think that's where you need to start. I think the missile defense, the C4ISR, which has the sort of mystical meaning now, but essentially the ability of the strategic command in Taiwan to carry on and to send orders to military operators in Taiwan, and to communicate with its public, I think, is crucial because it's also a question of will and morale right off the bat. So I think that's why the



whole package of C4ISR and strategic command and control would be the second.

And then the third I think is being able to identify those submarines and break those blockades just because again you have this island nation whose economic lifeline can easily be blocked off, and the morale and will issue within Taiwan is crucially important to be able to target submarines and break blockades.

COMMISSIONER TEUFEL DREYER: Tom.

DR. CHRISTENSEN: Thanks a lot for the excellent question. Just to say at the outset, I agree entirely that we should be concerned about innocent civilians including American citizens on Taiwan. I never meant to suggest otherwise.

And, yes, this is all a coercion game. In my written statement, I emphasize this. I'm interested in these uses of force short of sort of brute force amphibious invasion and occupation of Taiwan. I'm interested in the use of force to try to change the psychology on Taiwan, to try to change the psychology in the United States, in Japan and

elsewhere. And I think that's not only the most interesting and difficult political puzzle to address, but it's also the most likely scenario for the use of force, so it's the one we ought to be addressing if we're really concerned about the Taiwan security and its implications for the United States.

And along these lines, I'd just like to say that I didn't mean to convey earlier, as Dr. Cobb suggested, that I think that conflict is inevitable. I think it's quite preventable. I just think preventing it is a very challenging prospect and requires preparation for actual conflict so that you can deter effectively, along with those, as I said, those assurances that the CCP doesn't get the sense that if they forego belligerence, that somehow their entire cookie jar is going to be taken away in the process. And I do think you need to mix both of those elements.

I agree with Dan about the importance of defending against missiles and I think Taiwan has done some things from the public literature. There

is a disadvantage. It is unfair for Dan to answer that, but I'll say from--

MR. BLUMENTHAL: I didn't give away any classified information.

DR. CHRISTENSEN: No, but you have the advantage of knowledge, which is a wonderful thing. My understanding is that they've done various things in terms of passive defenses which are very important. Conventionally tipped missiles no matter how accurate has limited explosive capabilities, and if you can defend your assets against it, diversify your assets, harden them, and if you can do things like teach your pilots to take off and land aircraft on highways instead of military runways, you've done a lot of missile defense, because you've made it harder for your enemy to use a number of missiles to paralyze your defense capabilities.

And I think all of those things are appropriate. Now, I don't want to come across as saying everything that Taiwan should do is passive. I supported the Kidds' transfer which I think the Kidd class destroyer, I think it's a very good asset

for them to have. It provides air defenses. It provides surface warfare capabilities and as I said before, it provides anti-submarine warfare capability, and I think that's very important given the challenges that Taiwan faces.

I also think the transfer of the AMARAMs was a very good idea. I think it's going to be harder and harder for Taiwan to take its aircraft off and keep them in the air, and I think it's important for Taiwan's Air Force to be able to defend itself against an increasingly sophisticated mainland air force with increasingly sophisticated air to air missiles.

And that just makes a lot of sense. In terms of, just to reiterate a point I made earlier, the reason I focused on the P-3s, and again, I'm an amateur, I'm a professor. I haven't been in the military and I'm not a military strategist. But it seems to me from talking to military strategists and talking to people who have been in the military that for Taiwan's anti-submarine warfare capabilities, that P-3s make a lot more sense than submarines,

that submarines are incredibly useful assets for the U.S. Navy in hunting submarines, but the U.S. Navy developed that capability over a long period of time and with a lot of capabilities and it requires a very complex equation to use submarines against submarines, whereas the P-3 is a complex tool for sure, but compared to that method is much more simpler and much more efficient.

So since I'm concerned about the mainland submarines, I'd rather see them have the P-3s than talk about subs as an anti-submarine device and sometimes you get into this bean counting argument, well, they've got 50 some odd submarines, so we need to have several ourselves. Otherwise the balance will be off.

That's not the way to think about military affairs, it seems to me. The way to think about it is how you can counter their 50 some odd submarines in the most efficient and cost-effective way, and that's why I support the sale of the P-3s and I wish the Taiwan legislature would purchase them, and I'll just leave it at that.

Thanks.

MR. MEI: I think to answer this question, I think we need to look at both short term and long term, look at the problem both short term and long term. I think in the short run, I think Dan's and also DoD's recommendations are 110 percent on target. You need the combination of those three things and you need to do it quickly, you need to do it with substantial investments in terms of missile defense, like PAC-3s because that's what we currently have, even though PAC-3s are not necessarily the end all and be all in upper tier missile defense.

But you need PAC-3s. You need C4ISR. You need data links. You need TCCS. You need anti-submarine capabilities on a joint basis, you know, involving aircraft, helicopters, surface vessels, underwater, you know, surveillance systems.

However, that, I think we're talking about a war that will happen before about 2012, 2015. And we're also talking about a scenario in which the safety deposit box once opened says that, yeah,

Uncle Sam will be coming, it will be coming in seven business days. But Taiwan doesn't know that. Plus Taiwan can only plan for a war that happens in the next decade. They also have to look at--because we're talking about--I was just looking at their special budget plan. It runs through 2020.

So they're actually thinking about spending money well into the end of the next decade to build long-run capabilities that's going to carry them for a long time. So I think we need to be cognizant of that, and when we look at what is necessary to help Taiwan, what systems they need to acquire and plan for, we also need to look at the longer-term perspective, also from Taiwan's angle.

In the long run, I think Taiwanese, what they want to do is to develop some ability to deter war rather than to survive long enough for that, for the cavalry who may or may not get here.

What they want to do, and to address briefly the submarine issue, their concept, the way they explain it to PACOM to lobby for their approval back in about the year 2000 was to say, well, you

know, this is purely a defensive thing. You give us this toy and we're going to use it to hunt PLA submarines, some of which could be doing 30 knots and you'd never be able to catch them.

But that's beside the point. That was the sales pitch. That was the sales pitch. In reality, what they wanted to do, their CONOPs, their concept of operations, is to use it to interdict PRC because they've protected PRC's energy needs out to about 2025, and they said, well, you know, they're going to be importing 80 percent of their oil after the year 2020 or 2025.

So that would become a center of gravity vulnerability. So we're going to build a capability starting with the investment now over the next 15 years, so we could acquire this capability to threaten that center of gravity to ultimately deter their taking the war to us.

One other thing about the anti-secession law. Everybody reads all the other articles. I read Part III of Article 8 which basically said when



all other, when all peaceful possibilities have been exhausted. What exactly does that mean?

That does not mean if Taiwan declares independence or moves toward de jure autonomy. That means whenever we feel like it.

COMMISSIONER TEUFEL DREYER: Yeah.

MR. MEI: Or I think that actually is a retranslation in Chinese of one of the conditions they attached to using force back in the early '90s, and that is if Taiwan--well, there used to be three conditions--Taiwan declares independent, develops nuclear weapons, or there is foreign intervention in Taiwan. They eventually added on a fourth condition that was if Taiwan indefinitely defers reunification, that article, Part III of Article No. 8 basically is a retranslation of that, saying that, you know, so in other words, in the future, and Taiwan, again, this reflects in their thinking and their force planning, and things like submarines, in things like counter deterrent capabilities like cruise missile, they want to eventually develop a

plan where they don't have to rely on that safety deposit box, that they don't have control over.

COMMISSIONER TEUFEL DREYER: Mr. Mei, is systems integration a problem in the Taiwan military?

MR. MEI: There has always been system integration problems in Taiwan, in part I think because the officer corps is not as technically savvy as they ought to be, or for that matter in relative terms as technically savvy as they were say in the early '80s or the mid-'80s when they were planning.

For example, they planned an equivalent of the U.S. Navy's Aegis system called ACS, or advanced combat systems, which was based largely on commercial off-the-shelf technology because whatever the U.S. Navy had at the time, which was hard wired, Navy proprietary, was not releasable to Taiwan.

So in my ways, Taiwan was actually ahead of its time. They were very technically advanced out of necessity because they couldn't get their hands on all these goodies that the U.S. had. So they

developed a lot of stuff that they used, commercial components. They used IBM AT computers to run their air defense, surface to air missile system well before COTS became like a buzzword in the Pentagon.

COMMISSIONER TEUFEL DREYER: Thank you.

Dr. Cobb.

HEARING CO-CHAIR DONNELLY: We are running real late.

COMMISSIONER TEUFEL DREYER: Please, Dr. Cobb.

DR. COBB: Well, first, I'd like to compliment Dr. Christensen on his ability to be a military strategist if he ever wants to be one because he's pretty spot on most of the things he said. I'd buy the Dan package myself as I alluded to in the previous comments. The only other thing you would like at for Taiwanese options are asymmetric and there are all sorts of opportunities they could get into, but you wouldn't have to be on the other side of the Straits.

MR. BLUMENTHAL: Could I make a quick comment just to follow up? Part of thing is that

it's really fun to be on the Taiwan account if you're a major, a colonel, a GS-14 or 15, because there is no institutional authoritative voice. There's no security, assistant command, to speak of. There is no, you know, because of the unofficial relationship, anyone can have an idea about what's best for Taiwan, and confuse the heck out of them. Go to Taiwan and confuse the heck out of them with their best idea.

PACOM has their ideas. Joint Staff has their ideas. DoD has their ideas, and so one of the recommendations that I would make is that we get serious about this defense relationship, and we start speaking to them much more authoritatively and with one voice.

HEARING CO-CHAIR DONNELLY: There would be nothing worse than getting senior leaders involved in things. Commissioner Mulloy, if you would be so kind as to defer your question or comment to the next panel, Commissioner Robinson, who was head of you in the batting order has agreed to relinquish

his time, and in the interest of getting out of here alive, I propose that's what we do.

Is that amenable to you?

COMMISSIONER MULLOY: That's amenable.

HEARING CO-CHAIR DONNELLY: Thank you, sir. I would like to express the thanks of the Commission to the panel. And also ask that we move relatively rapidly to, and all 45, which I hope will be the concluding--

[Recess.]

HEARING CO-CHAIR DONNELLY: Could we bring the meeting to order, please, and will the panel be seated? Okay. Now we know who's serious. Our final panel today will examine the effects of evolving political, economic and social realities and the larger cross-Strait balance.

And let's get right to it. Very briefly, to introduce the panelists, Dr. Richard Bush, Senior Fellow at the Brookings Institution, who has a long history of public service and expertise in East Asian issues including service on the House Committee on International Relations.

Joining us also is Professor Vincent Weicheng Wang from the University of Richmond. He's associate professor in the Asian Studies Program and a political scientist. He's a graduate of University of Chicago and a SAIS graduate. Welcome.

And finally, Terry Cooke, the founder and CEO of GC3 Strategy, an international consulting firm, and prior to taking this job, he served in the U.S. Foreign Commercial Service, where he held a variety of positions in the region.

So without further ado, again, we'll do the usual down the batting order as per the previous panel, so Mr. Bush, the floor is yours.

DR. BUSH: Thank you, Commissioner Donnelly. Do I need to ask that my prepared statement be entered in the record?

CHAIRMAN D'AMATO: No, it will be placed in the record.

DR. BUSH: Okay. Thank you. Thank you very much for inviting me to appear. Thank you for your attention to these very important issues. It's

important to the country. I will talk about the political dimension across-Strait relations.

You've had very smart people talk about military matters, which are very dangerous. You have some excellent people talking about the economic component, which in some respects is a source of hope, but the political dimension is important in a variety of ways.

In my view, the core of this dispute is a disagreement over the legal status of the government of the Republic of China, particularly as it pertains to a possible future unified China.

That is to say when this question has come up about a possible future unified China, the government of the ROC has always said that it is a sovereign entity. China has always said it is not a sovereign entity. Moreover, it regards Taiwan's claim to sovereignty as separatism.

The second way in which this is very much a political dispute is that what China has most feared and the reason that it is accumulating its military assets is political initiatives by Taiwan. It

perceives these initiatives to have the objectives of permanently separating Taiwan from China. Actually I would claim that Beijing often misperceives what Taiwan is doing. What it sometimes regards as separatism is actually something else.

Third, I would say, again, defining why this is very political thing, China has been involved for a long time in penetrating Taiwan's domestic politics in the hope of shifting public opinion in its direction, and the very public welcome that it extended to the chairmen of Taiwan's opposition parties, the Kuomintang, the People First Party, and the New Party, earlier this year was only the most recent and visible example of that.

Finally, Beijing has, for a long time, hoped that the economic convergence that has occurred over the last almost three decades will promote political reconciliation between the two sides.

Having said all that, it is not completely clear that this strategy that Beijing has pursued



will work. First of all, it is not certain that the conservative, so-called Pan Blue forces, will win the next presidential election, which will occur in 2008. I surmise that that is Beijing's hope, but it is not certain that that will occur.

The likely Pan Blue candidate, Taipei Mayor Ma Ying-jeou, is going to have to prove to the majority of the electorate that he is going to stand up for the interests of all of the residents of Taiwan. His family comes from the Chinese mainland. I'm not saying he won't be able to do that, but he will have to work hard to do that.

Second, the opposition parties and Mayor May himself will have to work within the reality that China's actions often intensify the very Taiwanese identity that Beijing would like to mitigate. This is kind of counterintuitive, counterproductive result, but often China produces the kind of anti-China mentality that just drives it crazy.

Third, even if a Blue government were to take power, I'm not sure that it would, as a matter

of policy, undertake a really significant accommodation to China. Recall, as I said before, that the key issue is the legal identity of the ROC. And I believe that there is a broad consensus on the island, including among the Blue parties, on this issue, that the ROC is a sovereign entity. Mayor Ma is an international lawyer. He understands these issues in great depth.

Finally, any fundamental change in the island's relationship with China would require constitutional amendments. The bar to doing that is extremely high, and requires broad public consensus on the island. I think that would probably be very difficult to achieve.

Consequently, in my view, there are limits on any change, any fundamental changes in the status quo through political means. Fundamental reconciliation between Taiwan and China seems unlikely. The most likely scenario seems to be more of the same. If one's concern is Beijing using united-front tactics and Taiwan's open system to wear down its resistance, my conclusion should be

some reassurance. That's not a reason for complacency. I think Taiwan needs to strengthen itself in a variety of ways, economically, militarily, diplomatically, but also its political system.

Briefly, on U.S. policy, I think that Washington's approach to the Taiwan Strait issue has evolved during the 1990s from its traditional stance of strategic ambiguity to one of dual deterrence. What we have today is really a conditional commitment to each side. I don't really find fault with the Bush administration's current Taiwan policy. The danger in the current situation is Beijing or Taipei or both somehow miscalculating and stumbling into a war.

The best answer to this situation is a resumption of communication between the leaders of both sides. Beijing bears the onus for the absence of communication. If the current situation of non-communication continues, then it's probably up to the United States to remain deeply involved and that

is exactly what Washington is doing because our stakes in peace and stability are very, very high.

Thank you very much.

HEARING CO-CHAIR DONNELLY: And thank you. Dr. Wang, the floor is yours.

DR. WANG: Thank you, Mr. Chairman and the members of the Commission. I would like to discuss China's effective new strategic approach toward Taiwan, which I summarize as "hardening the stick but softening the carrot" and its implication for Taiwan and the United States.

[Laughter.]

HEARING CO-CHAIR DONNELLY: Very unappetizing.

DR. WANG: This strategy was gradually shaped over 2004 to 2005 to reverse Beijing's tendency to react to perceived challenges to its objectives and interest from Taiwan's leaders. It sought to seize the initiative in cross-Strait relationship and steer toward directions favorable to Beijing. So it's following Mao Zedong's dictum

of "Ni da ni de, wo da wo de," "You fight your way and I fight my way."

China's Communist leaders led by Hu Jintao implement this strategy with increasing success, raising questions about the future of cross-Strait relations and Taiwan's choices.

Mr. Chairman, China's stated objectives of integrating Taiwan with the mainland and its fundamental strategy of striving toward a peaceful unification while perceiving the option of using force have not changed, but up until recently, Beijing's policies have often proved counterproductive for its own goals. Treating the "one China" principle as a precondition for cross-Strait negotiations, China has pursued a four-pronged tactic: diplomatic isolation, political division, economic inducement and military intimidation.

However, this approach has failed to curb the electoral appeal of pro-independence political parties or attract Taiwan people to Beijing's "one-country, two systems" unification scheme.

My written statement submitted for the hearing discusses how Chen Shui-bian played the identity card well in his reelection last year. After Chen's reelection, Chinese leaders became increasingly frustrated by Taiwan's political evolution and worried that Chen would push for Taiwan's de jure independence in his second term.

This anxiety was demonstrated in China's 2004 Defense White Paper, which described the situation of cross-Strait relations as "grim." It vowed that the Chinese people and armed forces would spare no cost to resolutely and thoroughly shatter any attempt at Taiwan independence.

China's fourth generation leaders led by Hu concluded that Beijing's past strategies toward Taiwan had failed. While maintaining China's fundamental strategic goals, the Hu leadership made important tactical changes.

The contours of this new strategic approach are shaped by several elements: the May 17, 2004 statement by China's Taiwan Affairs Office; the so-called Anti-Secession Law in March 2005; the

communiques between Hu and Taiwan's two opposition party leaders, the KMT and PFP; and the decisive progress China has gained in its military modernization, which prompts the Pentagon's annual report to Congress to warn that the cross-Strait balance of power is shifting toward Beijing.

Mr. Chairman, compared to its unsuccessful old approach, Beijing's new approach contains three main characteristics, and they all aim to enhance the credibility of China's stated goals and policies.

First, while preserving the ultimate goal of unifying Taiwan with China, the new approach's emphasis is to prevent Taiwan's de jure independence from China, not achieve unification in the short run. China has developed an increasingly integrated new grand strategy which incorporates foreign policy, defense policy, cross-Strait policy and domestic policy, to synergistically augment their combined benefits.

The overall goal is to amplify China's comprehensive national power through a process of

peaceful rise. To accomplish this, China needs a stable external environment for at least two more decades. Following Deng Xiaoping's dictum of "taoguang yanghui," or "biding one's time and cultivating one's capabilities," China is striving to secure peace on its peripheries and avoid a premature confrontation with the United States.

A contingency over Taiwan would threaten both. Therefore, China must find a better strategic high ground. China's past claim of achieving unification as one of the country's top priorities never found traction with Taiwan's population and gradually lost credibility in light of Taiwan politicians' creeping independence maneuver. Politicians like Chen correctly concluded that China did not have the capability to enforce its claim and would appear to belligerent if it tried.

But changing the emphasis to opposing independence while passively tolerating Taiwan's current de facto separation, China now puts the onus on Taiwan. The past emphasis on unification served to label the majority of Taiwan people who favor



maintaining the status quo as separatist. But the new tactic substantially reduced the number of potential enemies.

Secondly, the new approach appeals to Taiwan people with concrete benefits rather than hollow nationalistic slogans. In the past, China insisted that a political agreement on one China must precede negotiations over practical matters. Taiwan thus rightfully questioned the credibility of China's numerous generous offers.

The new approach delivers tangible benefits ranging from reciprocal charter flights during the Lunar New Year to zero tariff treatment for fruit imports from Taiwan, as long as private organizations with official blessing from both sides can reach agreements.

This has the effect of transforming one China from a stick to a carrot. Whereas, previously, it implied loss of sovereignty, now it entails economic opportunities and hope of a stable relationship with China.

Meanwhile, China has hardened the stick by unambiguously equating independence with war. The softer carrot and the harder stick enhance Beijing's credibility by presenting Taiwan government with two stark choices: either come to terms with Beijing on the one-China issue and thus enjoy the real benefits from a fast-growing Chinese economy, or risk economic marginalization and war.

Third, the new approach shows a sophisticated understanding and clever manipulation of domestic politics in Taiwan and the United States. To defuse U.S. objection, China calls its own domestic law anti-secession law, in order to gain U.S. empathy, while opposing another U.S. domestic law, Taiwan Relations Act. It also reminds the U.S. of its own policy of not supporting Taiwan independence.

On the Taiwan side, China's new approach exploits a deep mistrust between the Pan Blue oppositions and the DPP government, and transforms a common battle of all major political parties in Taiwan against Chinese tyranny into a very

unfortunate internal fight between those that favor improving relationships with Beijing and those that favor safeguarding Taiwan's independence.

Soon after China's enactment of anti-secession law, Hu rolled out the red-carpet reception to the leaders of the KMT and the PFP. This shrewd move not only dampened the international backlash to the threat of so-called "non-peaceful means" in the law, but also sowed the seeds of discord in Taiwan's domestic politics. It ensured that China would now be a significant factor in Taiwan's domestic politics.

Paradoxically, Taiwan government now finds itself competing with Beijing in wooing the population in Taiwan and the estimated one million Taiwanese living in China. Ironically, their roles have also been reversed. China now is eager to show that it can take care of ordinary people's real interests by enticing them to the enormous potential offered by a fast-expanding Chinese market.

Taiwan, on the other hand, often finds itself threatening punishment against behavior

deviating from abstract concepts of national security and nation building. China's new strategy goes with the tide, whereas Taiwan's strategy is akin to swimming against the tide. For the first time, China's Taiwan strategy appears to begin to show effectiveness.

Mr. Chairman, however, China's new approach toward Taiwan and impact on cross-Strait relations have not altered the strategic fundamentals in this potentially volatile region. China's new approach has arguably frozen Taiwan's move toward permanent separation. However, China is simultaneously robustly modernizing its military with particular emphasis on acquisition of those capabilities to compel Taiwan to accept unification on Beijing's terms and to deter the United States from intervening in a Taiwan contingency.

This, of course, is changing the status quo, making the maintenance of the status quo increasingly difficult. The United States has had comparatively less success in influencing China in reversing the trend of militarization in the Taiwan

Strait. In that regard, I applaud the Commission in organizing this hearing on China's military modernization and cross-Strait balance.

Thank you.

HEARING CO-CHAIR DONNELLY: And thank you. Mr. Cooke, take us home.

MR. COOKE: Thank you, Mr. Chairman. In the interest of everyone getting out alive, I'll try to be as brief and concise as the other panelists. Good afternoon. I'm privileged to have this third occasion to share with the Commission my findings and perspective as developed over a continuing three-year examination of cross-Strait trade in the information technology sector.

The concerns of this panel are issues I've been examining directly. That such a large number of Taiwan entrepreneurs are active and living in the mainland has major implications for Taiwan's long-term ability to innovate, to train its local workforce and to maintain its competitiveness.

The prospectus for this panel mentioned approximately one in 23 Taiwan citizens now working

full time in China. As a light-hearted aside, I would point out that this figure appears generally accurate, but that a large proportion of those one in 23 Taiwanese might not actually be on the mainland at any given time. They seem to be semi-perpetually airborne somewhere between Shanghai and Hong Kong or Hong Kong and Taipei.

The prospectus also mentioned the Shanghai-Suzhou-Nanjing corridor. I've recently concluded a small case study on Suzhou's emergence as the new critical mass staging point for IT investment in China. Suzhou's emergence following an earlier progression of Taiwan IT investment through Dongguan, Shanghai and then Kunshan, is noteworthy.

Clearly, something new is happening when the Mayor of Suzhou visits the headquarters of Macronix outside Taipei to solicit additional Taiwanese investment or when the Taiwan Computer Association and the Municipality of Suzhou jointly sponsor a new IT world trade show in Suzhou called "eMex," resulting in the construction of a new 52,000 square meter international exhibition hall in

Suzhou catering largely to the Taiwan Computer Association's membership, or when Suzhou emerges as the world's leading cluster for PC and notebook display screens as well as for TFT-LCD advanced generation TV flat panel displays while at the same time that Taiwan's government is developing that sector into a \$35 billion USD industry by the year 2008.

For our purposes today, I would like to keep within the commercial economic sphere but broaden the perspective of my testimony from past visits with you beyond the IT sector to view it alongside other key sectors of U.S.-Taiwan-China economic activity.

In my view, the need at this point in making sense of what's happening across the Straits economically and commercially is for a slightly broader perspective and deeper context to be applied in analyzing discrete developments in the cross-Strait IT arena.

And second, for IT dynamics and trends to be disaggregated from other key arenas of cross-

Strait economic commercial activity. This broadening of perspective on cross-Strait IT issues and the unbundling of IT from other key areas of economic engagement can help us sort out better whether Taiwan and China are on a path of resolution or collision, economically speaking at least, and how we should adjust policy to support resolution.

The first issue I have raised is simply one of perspective and context in the IT sector. The more that we anchor analysis in the broad and deeply rooted dynamics of the global supply chain, the more we can distinguish avoidable risk from unavoidable change.

I give an analysis of the old bugbear issue of chip foundry and framing the issue from that broader and historical perspective, there are just some generalizations that emerge from it. Some degree of migration of foundry capability from Taiwan to China is natural and even unavoidable as a result of trends in the global market. Very few foundries would be expected ultimately to be PRC



owned because the global ecology is able to only support three to at most five major foundry players.

The PRC government is unlikely to direct its limited capital resources to betting on foundry winners or losers simply because the global VC community is already placing its bets on that with the advantage of deeper pockets and greater understanding of the global market.

And the area where the Chinese government appears to be focusing its resources and efforts, and where the U.S. government would do well to focus its scrutiny, is not so much targeted towards foundry manufacturing as it is in promoting the IC design capabilities that develop hand-in-hand with expansion of foundry capacity.

This broader perspective brings some unexpected findings into focus. One such finding that the overall trajectory of this trend has shown fundamental continuity over decades despite changes in the agenda of differing political leadership teams on both sides of the Strait, despite political

ups and downs of the moment and despite rapid advances in technology.

The second issue which I would like to raise is to unbundle a bit the IT sector from some other key sectors of cross-Strait trade and investment in which we also have vital interests at stake.

In other words, now that cross-Strait economic and trade activity is recognized as a key element of cross-Strait security equation, what are the most relevant component factors of that economic and trade activity?

As a starting point, I would suggest that we focus on at least four broad sectors of economic engagement that tend to play out very differently and each of which is driven by a fundamentally different calculus of business decision-making.

The first such sector already discussed is just a broad range of IT products tied to a highly developed and highly differentiated global supply chain and dominated by Taiwan equity owners and manufacturers.

While these products are not generally subject to stringent regulatory or export control restrictions, they are in turn subject to relentless market driven pressures of commoditization and price erosion. A better understanding of dynamics in this sector is needed to understand how these technologies and industrial capabilities might, in effect, seep over and become a part of a concerted effort by the Chinese to amass capabilities of a strategic nature.

The second such sector would be the traditional category of military and dual-use technologies. This sector differs from the broad category of IT products just discussed in that it is characterized by highly strategic technology IP, generally commands higher profit margins and is not equally subject to commoditization pressures and is driven by regulatory and governmental forces rather than by purely market forces.

A primary challenge here is determining how this sector is being affected by seepage effects from that broad range of IT products that are now

well established in China and as part of the global supply chain.

A secondary challenge--I'll skip that--excuse me. The third such sector is what I will call Wal-Mart commodities, the manufacturing of everything from air conditioners to xylophones, and this is, of course, the sector both in Taiwan and in the U.S. where manufacturing migration to China has brought acute pain of job displacement and where issues of labor and environmental standards tend to be most focused.

My only comment here would be restate what I hope is obvious, that the commercial dynamics in the Wal-Mart sector are entirely different from the dynamics in the IT sector, and that different responses and analyses are called for.

The fourth major sector to disaggregate would be trade and investment relating to industrial raw materials and other key natural commodities. A specific example in the cross-Strait arena would be the joint exploration taking place between Taipei and Beijing of energy resources in the Strait of

Taiwan. Effecting more directly the U.S. would be CNOOC's failed bid for Unocal.

My one observation here is that there is indeed some good commercial justification in questioning the validity of CNOOC's shareholder pitch to Unocal. As we were just reminded by Yahoo China, no company in China is free to operate just like a regular multi-national enterprise from the U.S. or Europe, Japan or elsewhere.

Therefore, the argument of Chairman Fu of CNOOC that shareholders should look at CNOOC's bid just like any other bid and that no additional time should be taken to allow investors to quantify the political risk premium associated with CNOOC's bid was always a bit hollow.

I won't presume to offer a single answer to the question of whether the commercial and economic trends I have described above are leading in the direction of cross-Strait resolution or collision. Instead from the broad and unbundled perspective that I've been advocating, I would offer four simple trend line observations:

In the general IT sector, the net effect of the extension of the global supply chain from the U.S. through Taiwan into China has been largely beneficial and generally stabilizing for all concerned.

In the second of high technology goods traditionally subject to explicit export control regimes it remains an open question whether China is having success leveraging its new-found position in the global IT supply chain to amass qualitatively or quantitatively new capabilities of a strategic nature, to be directed against either Taiwan or the U.S.

This would potentially be destabilizing but to date in my mind, there are no obvious indications that this is either widespread or acute. Clearly, however, this question needs to be much better understood.

Third, in the sector of Wal-Mart type consumer goods, I am confident that in both Taiwan and the U.S., our respective political processes will sort through these issues successfully,

balancing fairness and opportunity for our respective citizenries with an enduring commitment to the benefits of open and free trade.

While the long-term resolution of this issue could potentially affect political attitudes in the U.S. to such an extent that it would start to affect the course of either cross-Strait resolution or conflict, I personally see this as a relatively remote risk.

In the sector of raw materials and strategic natural commodities, new risks are apparent and new thinking required. China's appetite is voracious. The acquisitions of its companies' worldwide is actively encouraged by the government and supported directly or indirectly by unprecedented foreign exchange reserves and a still artificially low exchange rate.

A globalized economy is an economy dependent on efficient worldwide distribution of key goods and resources. This means great benefit but also entails greater risk of disruption through natural disaster or terrorism or other disruptions.

We have an interest in seeing that China's entry into these markets is not that of a bull in a China shop.

To conclude, I have offered only some quite general prescriptions for better focusing on the cross-Strait trade dynamic. In sum, Mr. Chairman, these are to contextualize specific instances of IT tech transfer and localization of industrial capability from the broad perspective of the general IT sector and from the broad context of historical globalization dynamics which drive it.

Secondly, to disaggregate or unbundle in our thinking and in our political dialogue various sectors of cross-Strait engagement in order to better understand the dynamics of each on its own merits.

And third, to focus more sharply on the fast-evolving interface between the broad established global supply chain of IT and those specific IT-related technologies subject to traditional export control in order to identify



areas of possible seepage that may be contributing to a build-up of Chinese strategic capabilities.

Thank you.

HEARING CO-CHAIR DONNELLY: Thank you. I think I have a debt to pay to Commissioner Mulloy.

CHAIRMAN D'AMATO: We're all going to pay for it.

[Laughter.]

COMMISSIONER MULLOY: Thank you, Chairman Donnelly. And Dr. Cooke, I salute you for your testimony and very important point you made about the migration of the semiconductor industry. That has been raised in this Commission by the Defense Science Board which is very concerned with that.

But I have some leftover business from the last panel I want to get into. And I want to get people on the record on this. There was a whole question of whether there is anything in the safety deposit box when the Taiwanese open it up to see what the U.S. commitment is if they get attacked, and that was debated in the last panel.

Mr. Bush, this administration early on, the president, said that we would do whatever it takes if Taiwan got attacked. That created some concern that maybe we had moved beyond strategic ambiguity to a commitment. Some have been even speculating that President Chen then got emboldened to move toward independence and then we had to rein him in later. As Mr. Christensen said, the administration repeatedly had to state that the U.S. did not support Taiwanese independence and criticized Taiwanese officials in public for talking that way.

Now, Mr. Mei, M-E-I.

COMMISSIONER TEUFEL DREYER: Mei.

COMMISSIONER MULLOY: Mei. He's the Director of the Taiwan Security Analysis Center. In his testimony, he talked about that we ought to maybe even think of helping Taiwan develop offensive weapons so it could have its own deterrence against China and not have to maybe rely so much on the United States.

Do you think that would cause--what kind of a reaction would that be? Would that be a

stabilizing influence on this relationship or would that cause more tension and more concerns for ultimately U.S. national interests to move in that direction?

I would like to start with Mr. Bush and then go across and see what anybody has to say about that.

DR. BUSH: First of all, Dr. Christensen was very humble about his expertise on military issues. I really am a lay person. I do not believe that Taiwan acquiring much of an offensive capability is really a solution to their problem.

I think there are limits to which that would provide a deterrent because you need a lot of other things besides. You need targeting data. You need intelligence. You need a strategy and so on.

You need technology in order to make sure that the delivery systems and the ordnance that you try to deliver actually hits the target. I have always believed that Taiwan's best deterrence is a good relationship with the United States and

confidence that the United States will come to its defense.

In this day and age, you increase that confidence--Taiwan increases that confidence by assuring the United States as much as possible that its political intentions are in line with our policy that it will not take actions that will provoke China into attacking. I said that our approach was dual deterrence. What that means is we warn China not to use force; we urge Taiwan not to take political steps that would provoke China into using force.

As long as the United States and Taiwan are on the same page, I think Taiwan is safe. And as long as we communicate well together, I think Taiwan can be confident about what's in that locked box.

DR. WANG: Of course, having not served in the State Department, I have never seen what is in the safe deposit box.

[Laughter.]

DR. WANG: But Richard may have.

HEARING CO-CHAIR DONNELLY: Nobody in the State Department has either.

COMMISSIONER TEUFEL DREYER: Yeah, I suspect that's true.

[Laughter.]

DR. WANG: I agree with Dr. Bush that Taiwan's security cannot rely on military means alone. Of course, the United States being Taiwan's main security guarantor, the relationship is very important. However, I would like to stress a concept that deterrence, the concept deterrence is not a static concept; it's a dynamic concept.

So to respond to you, Commissioner Mulloy's question whether it makes sense for Taiwan to acquire offensive weapons, my answer is if that is what deterrence, deterring China will require. In other words, of course, Taiwan should not do anything politically to provoke China from taking military action. But Taiwan's defense capabilities must also be such that China would think twice before using force against Taiwan.

In other words, when China is increasing its asymmetric warfare offensive capabilities, I think the concept of deterrence needs to be adjusted.

MR. COOKE: Commissioner Mulloy, I will acknowledge your generous remarks about the focus on the semiconductor issue and pass on the specific question.

COMMISSIONER MULLOY: All right. That's fine. Thank you. Thank you, Chairman Donnelly.

HEARING CO-CHAIR DONNELLY: Commissioner Dreyer.

COMMISSIONER TEUFEL DREYER: I'd like to ask the panelists their assessment of the differences between Taiwan's political parties on unification versus no. And this has two parts. First, if the KMT should win the presidency in 2008, while holding on to its ability to control the legislature, are they likely to (a) want to; and (b) if so, be able to effect unification?

And the second part of the question is how do you see the future of Taiwan's political party

system? Will these new rules lead to the absorption of the PFP and NP into the KMT and the TSU and TIP into the DPP? And if so, with what effect on cross-Strait relations?

HEARING CO-CHAIR DONNELLY: And what would the acronym be?

[Laughter.]

COMMISSIONER TEUFEL DREYER: I'm not asking that question. The acronym will stay KMT and DPP, but as you know, one of the purported reasons for Lee Deng-hui founding the TSU was to keep the DPP from moving too far toward the center too fast, so obviously that could have some repercussions.

Please, Dr. Bush.

DR. BUSH: Could I ask you a question?

COMMISSIONER TEUFEL DREYER: Sure.

DR. BUSH: When you say move to unification, on what terms?

COMMISSIONER TEUFEL DREYER: Any terms.

DR. BUSH: Okay.

HEARING CO-CHAIR DONNELLY: Now, obviously unification, if this is what you mean, when I say

unification, I rule out unification under KMT rule. I think that's not going to happen. Is that what you mean?

DR. BUSH: Okay. No, what I meant by my question is unification under China's terms.

COMMISSIONER TEUFEL DREYER: Yeah. Unification on China's terms. That's the only way unification can be achieved, it seems to me.

DR. BUSH: Okay. Okay. Let me take the second question first. It seems to me that whether there is going to be a political consolidation or a party consolidation depends a little bit on how the districts are drawn.

You could draw the districts in such a way that it maintains the more radical parties. I'm told by political scientists on Taiwan who know a lot more about politics there than I do that for complicated reasons that I can't quite remember, that actually the sort of conventional wisdom on single-member districts will actually hold and it will be harder for third and fourth and fifth and sixth party to maintain their independence, and that



over time, you will actually see consolidation towards a two-party system.

I suspect that it will take some time just as it is taking time in the Japanese system for the same dynamic to work and so it may be another decade or so before we see a consolidated Blue party.

COMMISSIONER TEUFEL DREYER: So, essentially, then it would have no immediate effect.

DR. BUSH: No immediate. I think that's fair. If the Pan Blue took full power in the Taiwan political system, would it enter into negotiations with the PRC on the basis of the "one country, two systems" formula? No.

COMMISSIONER TEUFEL DREYER: No. Okay.

DR. BUSH: No. Because the Kuomintang along with every other significant party in Taiwan holds to the view that the Republic of China is an independent sovereign state and that is inconsistent fundamentally with "one country, two systems."

I think that the Kuomintang would try to approach Beijing in a nicer way. Ma Ying-jeou has suggested he would try to pursue in an accelerated

way the three links, and that may be the way he's trying to define improvement of relations with the mainland. He may run up against the "one China" principle in one way or another, and Beijing would have to decide how important that principle is.

I think that what both he and Beijing will find, that they come back to the very fundamental principle that stalled the sort of nascent reconciliation that was beginning in the early '90s and under Lee Deng-hui and the Chinese leadership at that time, sort of the legal identity of the Republic of China. But unification under one country, two systems not a chance.

COMMISSIONER TEUFEL DREYER: Okay.

Professor Wang.

DR. WANG: Yes. Thank you, Commissioner Dreyer. I think to speculate what a Pan Blue presidency and legislature might do on this issue, one can probably look at what's already on the shelf. My guess is that they will have no trouble returning to the so-called 1992 consensus, the

artful way of agreeing to disagree on the one China issue.

In fact, the two leaders from the KMT and PFP says as much during their visit to the mainland. They could also reenact the national unification guidelines of 1991, which some people call "national no-unification guidelines" because it portrays the process as a very long protracted process, short-term, medium-term and longer-term.

So the KMT government can simply say that as long as it seems that Beijing has no trouble with our '92 consensus, we could say that our process has now moved from the short-term to the medium-term, namely from exchange and mutual benefit to negotiation on practical matters.

After all, there are already precedents there, you know, as long as the two sides can find creative arrangement authorizing private parties and they can bypass the issue. I agree with Dr. Bush, the political climate in Taiwan has changed so much that even a Pan Blue government is unlikely to

accept the "one country, two systems" scheme outright.

Your second question about the future of the party system, my thinking is that if the [?] law will work in Taiwan, then in the long run, we should see a two-party system, given the current electoral reform. However, a more immediate interesting question to see is if whether the PFP and the KMT can join force or only form a tactical alliance in the 2008 election?

I think that Ma Ying-jeou is finding out that trying to cooperate with the PFP is very difficult.

COMMISSIONER TEUFEL DREYER: It looks that way, yes. So you don't again see any immediate effect on the minor parties?

DR. WANG: Smaller parties, right, yeah.

COMMISSIONER TEUFEL DREYER: Yeah. Thank you. Mr. Cooke, feel free to pass on that if you have no particular--

MR. COOKE: The only comment I would add, one general comment to both parts of your question,

is that the problem Taiwan is facing economically of going from an economy that has been unbalanced towards too much on the IT side and how to move up the next rung is one that really, in my mind, affects both the DPP and the KMT in similar ways.

And that despite the surface divergence between the two parties, that under the surface there is a great deal of commonality of thinking that those economic drivers are bringing about, and they are leading to KMT which might surprise Beijing in some of its decision-making were it to come to power the next time around, just as the DPP is showing more suppleness and responsiveness to economic conditions than people credited it.

COMMISSIONER TEUFEL DREYER: Thank you.

HEARING CO-CHAIR DONNELLY: If I may, just apropos of that, it seems to me, to turn Commissioner Dryer's head, question around--excuse me--the interesting question is what Beijing's reaction would be to a Pan Blue government that doesn't really produce any significant or serious move toward unification, whether that might prove

frustrating to the mainland? Anybody got any speculation about that?

DR. BUSH: The usual tendency is to sort of blame the leader, to find some ideological failing, you know, Lee Deng-hui was Japanese.

HEARING CO-CHAIR DONNELLY: So was Mayor Ma.

DR. BUSH: Mayor Ma, he's an ideological anti-communist, and he's already said--

HEARING CO-CHAIR DONNELLY: That's reaching back a long way.

DR. BUSH: You know he's already said until China reverses the verdict on Tiananmen, it's hard to see how X, Y or Z could happen. So he's left a trail of evidence that they could point to if they needed to build a case why he's not a good interlocutor. But to explain their problem, either by sort of fundamental principles of the nature of the Taiwan government, which is one of my explanations, or to explain it by sort of political forces within Taiwan's democracy, which is my other

explanation, that's hard for them to wrap their minds around.

HEARING CO-CHAIR DONNELLY: Okay. Chairman D'Amato.

CHAIRMAN D'AMATO: Thank you, Mr. Chairman. I want to pursue a little bit of what you were just talking about in terms of the reality of the possibility of the KMT straying very far away from what the current government is taking a position on.

I mean it's my understanding that the great majority of the Taiwanese people--tell me if I'm wrong--but polling data shows the great majority, 80 percent or more, of the Taiwanese people have no interest in reunification; they have no interest in independence either. They want the status quo; is that accurate?

And if that is accurate, then the perception of these KMT leaders running over to the mainland is very misleading, it seems to me, because it gives the impression that you have a party that is representing a swath of the Taiwanese people that may be interested in reunification.

COMMISSIONER TEUFEL DREYER: Unification.

CHAIRMAN D'AMATO: Uh?

COMMISSIONER TEUFEL DREYER: Unification.

CHAIRMAN D'AMATO: Reunification, whatever. Yeah. Whichever. I'll take either one, either one. But is it true that the majority of the Taiwanese-- in other words, I would say, my proposition is time is working against the Beijing government, not the Taiwanese government, because the longer the status quo exists, the more you have people of Taiwan basically have their own identity. And it deepens as time goes on. It seems to me a natural process. Is that correct?

DR. BUSH: Well, first of all, you're absolutely right in reporting the polling data. The problem I have with the polling data is that no one defines what these terms mean. You know when they say do you want unification, independence, or the status quo, nobody says, you know, is it unification according to one country, two systems? And what does status quo mean?



CHAIRMAN D'AMATO: The average person should know what status quo means, how I live now and how my environment and political environment are.

DR. BUSH: But, you know, one person's status quo could be very different from another person's status quo, and it may very well be sort of a common sense definition. It could be something else. But I think let's accept your basic conclusion as probably right, that people want the status quo.

And so China may be misleading itself by thinking that if Lien Chan and James Soong come over that that represents a swing in Taiwan opinion. It probably doesn't. What may be producing a longer-term swing are the trends that sort of Terry looks at, and sort of the binding of the two economies and the fact that Taiwanese young people when they think about their long-term employment future may have to think more about a job on the mainland rather than a job on Taiwan or a job in the United States. And

that's a subject that requires a lot more investigation.

CHAIRMAN D'AMATO: I agree.

DR. BUSH: And we can't be clear what that means. It may be that if you have to work in the mainland that doesn't necessarily make you feel more Chinese; it may make you feel more Taiwanese, you know, who knows. But it's more interesting.

CHAIRMAN D'AMATO: Yeah. and if that person has a political sensitivity based on the political system in which he grew up in Taiwan, he may be prepared to have his economic future in the mainland but not necessarily his political future.

DR. BUSH: People in Taiwan have two sides to their brain.

[Laughter.]

CHAIRMAN D'AMATO: Thank you. Do you have anything to add to that?

DR. WANG: Just like people everywhere else, they have two sides of the brain.

DR. BUSH: Yes.

DR. WANG: I think interpreting the status quo requires a little care. The chairman is absolutely correct in pointing out that the majority of people in Taiwan tell you that they favor the status quo, but what exactly are they thinking? Are they genuinely interested in the status quo indefinitely or do they think that choosing status quo is actually a prudent choice?

Scholars Emerson Neal [ph] and David Zonshea [ph] have actually tried to statistically analyze and they found that the Taiwanese preference for the status quo is actually conditional preferences. So they were puzzled by the high incidence of status quo and they find that if you ask the Taiwanese people if you can achieve unification without high cost, that is to say if the gaps between Taiwan and the mainland are small, would you be in favor of unification, they see a lot of people shift from the status quo to unification.

If you can achieve independence without cost, namely the United States will protect Taiwan, you also see a lot of status quo people shift toward

independence. So interpreting this requires a little care, just like interpreting the split response of the public toward the Pan Blue leaders visit to the mainland.

On the one hand, they seem to favor, approve their efforts in stabilizing the relationship. On the other hand, they also disapprove. The Taiwanese population knows very well that Beijing is playing the game of divide and conquer.

CHAIRMAN D'AMATO: Yeah.

DR. WANG: So--

HEARING CO-CHAIR DONNELLY: Apparently having two sides of the brain means you feel very strongly both ways.

[Laughter.]

HEARING CO-CHAIR DONNELLY: Commissioner Wortzel.

COMMISSIONER WORTZEL: Thank you. I have separate questions, if I may, for Dr. Wang and Dr. Cooke. Dr. Wang, you seem to be fairly critical of at least Assistant Secretary Kelly in the State

Department for wanting to manage rather than resolve the Taiwan issue in your written testimony and you seem to want the United States to make kind of a firm choice on Taiwan status.

So I would ask you why should the United States take a firm position on Taiwan's status if the political parties and the voters on Taiwan can't agree on its status?

And Dr. Cooke, I really have I guess it's two for you. What would be the next rung on the IT scale to which Taiwan should aspire? Tell me what that means for somebody who is not involved in IT.

And second, I would argue that if Taiwan doesn't pass a budget that would permit it to take advantage of U.S. arms sale package, the offer by President Bush is merely a symbol for them, for the government on Taiwan. Now you argue for a free trade agreement. A free trade agreement is not a symbol. You know it involves specific policies that would permit open exchange of goods.

So what specific policies on property rights need to be changed in Taiwan so that the United States could conclude a free trade agreement?

DR. WANG: Commissioner Wortzel, your question was addressed to me first. So why should the United States take a firm stance when the political forces in Taiwan don't have a firm stance?

I think if I want to be provocative, I can say that one reason that contributed to the confusion within Taiwan is the U.S. policy. The U.S. policy of de-recognizing the Republic of China in 1978, the withdrawal of diplomatic support in 1971 in the United Nations, and so on arguably contributed to Taiwan's very nebulous and difficult international status.

So what is Taiwan? Is Taiwan--Taiwan used to think of it as a nation state and was the rightful ruler of all China, but now the whole world does not think that, and I think the U.S. policy contributed to that.

We can say that the issue is over determined, so you know, I can't answer that

question. Why is management not necessarily the best policy at all times? I feel that the U.S. as a superpower can do what is right, although something that is right is not necessarily always easy. If the modus operandi is to manage, then we will always find ourselves in a position of being pushed by one side or the other, especially this policy of strategic ambiguity is leading both sides to try to test the boundaries of U.S. policy.

So, I think the U.S. should have its own policy and should make very clear that the U.S. policy is different from Beijing's policy. It is also different from Taiwan's policy.

MR. COOKE: Commissioner Wortzel, on the question of what the next run would be, both in the United States, in Taiwan and globally, IT is not going to be the workhorse of innovation. The pressures from price commoditization are just too great and at the risk of throwing out a jumble of buzz words, it's also, I think clear in the U.S., Taiwan and globally that in services led innovation, knowledge business, breakthroughs into next wave

industries like the life sciences are where value is migrating.

And I think that does play to the type of resources that Taiwan can potentially mobilize, but it takes any region, any nation, quite a deal of effort. You need to retool workers. You have to get your education system properly aligned and people have to be able to exercise certain basic freedoms of choice to follow opportunity. I think that's where Taiwan's future lies and it will be beyond simple IT.

On the FTA question, I'm going to take refuge in my current position as no longer a U.S. government official. At the time I left AIT I was less supportive than I am perhaps now about the benefits, in my mind, at least, about giving serious consideration. That does not necessarily mean that Taiwan is going to jump through all the hoops and satisfy all the requirements of the FTA process.

But I think giving the candidacy serious consideration is in its own right very helpful and at a certain level even with a directly in U.S.



broad interests. I'm not approaching it from a USTR point of view of a deficiency today in this particular area or that particular area. Taiwan underpins a huge area of our nation's prosperity economically and through the global supply chain.

And it is currently exposed in the region as not having a significant bilateral trade partnership, partly as a result of its political marginalization. And I think it is really--that creates a certain vulnerability because there is a trend economically as the various multilateral processes go through their stops and starts.

There is a great deal of bilateral trade partnership activity. China is leading its own agenda in that area, and Taiwan is very isolated and exposed in that particular area. It has no significant bilateral economic partnership with any major party. So I think it actually naturally would fall to us to be the first to examine that on its own benefits.

DR. BUSH: Commissioner Wortzel, may I respond to your question?

COMMISSIONER WORTZEL: Go ahead.

DR. BUSH: You had mentioned property rights as a possible issue.

COMMISSIONER WORTZEL: Well, specifically, what are the issues that Taiwan has to resolve in order to satisfy the U.S. Trade Representative and reach a free trade agreement?

DR. BUSH: Well, there are some bilateral trade issues that need to be resolved. Intellectual property rights protection, some agriculture issues, pharmaceuticals, telecom, and--

COMMISSIONER WORTZEL: I don't think those are just artificial hoops.

DR. BUSH: No, they're not artificial hoops and it appears that progress is being made. Then the next question is does USTR have the horses to start the race? Once you sort of get into the negotiation, one very interesting question that will have to be discussed and has been discussed in other FTAs is what is the Taiwan product?

In this globalized economy, particularly one where a lot of Taiwan manufacturing is actually

occurring 90 miles across the Strait, what's the Taiwan product that would benefit from free trade treatment?

HEARING CO-CHAIR DONNELLY: The ever-patient Commissioner Wessel.

COMMISSIONER WESSEL: Out of deep respect, I will yield a minute to my colleague, Mr. Mulloy, for asking a question for the record to be submitted for the record.

COMMISSIONER MULLOY: Yes, thank you, Commissioner Wessel. You're very kind. And I'll be quick. Terry Cooke, let me, you have a very important paragraph on page two of your testimony where you talk about the migration of industry out of the country, particularly semiconductors, and you make the point that when these migrations are due to global market forces, that's one thing.

But you say, on the other hand, when migration of critical industry represents a foreign government's effort to manipulate the global market so that it can amass capabilities of a strategic nature, that's in our national interest to impede.

Can you tell us, for the record, is China doing that? With what industries? And how does it do it? What incentives does it have in place to make that happen? I think it's going on. We heard testimony in that regard, and I'd like to just have your benefit of your views on it.

COMMISSIONER WESSEL: My understanding is you were seeking a written response.

COMMISSIONER MULLOY: Yes, a written. If you could do a written submission, because we promised to get everyone out of here at 5:30.

HEARING CO-CHAIR DONNELLY: Or if you can put us out of misery very briefly, we would take it now.

COMMISSIONER MULLOY: Okay.

MR. COOKE: I can do it in 60 seconds, I think.

COMMISSIONER MULLOY: Okay.

MR. COOKE: From my point of view, that is the apt question. As a non-expert, it's clear that in certain areas of espionage, China uses its own model that is quite different from how we were used

to dealing with espionage in the Cold War era with the Soviet Union. The technology is changing fast. I think the Chinese have a different model of how to leverage global IT for their own benefit.

I don't think we necessarily understand it well enough. I'm not sure that we even know exactly the right questions to ask and places to focus to keep our traditional export regime up to speed with what's happening in China because what's happening is fast, it's technologically complex, and the Chinese are bringing their own new approach to leveraging advantage out of it.

We're not going to be able to stop the global locomotive of IT change, but we need to focus on the area between the traditional export control regime and this installed base of advanced IT capabilities that are now on the ground in China and understand better what might be seeping across that interface.

COMMISSIONER MULLOY: Thank you.

HEARING CO-CHAIR DONNELLY: I believe the chairman has--

CHAIRMAN D'AMATO: I'll make a comment on that. Even in areas where there's not a clear strategic export control question, this so-called globalization of the supply chain, it appears it is being stretched to the point where leveraging and vulnerability can be asserted by the Chinese in many industries that we're not aware of.

And I don't understand. There's a book that I've just read. Mr. Mulloy loaned it to me. Barry Lynn just wrote a book called The End of the Line. He talks about this in great detail. It's an extremely important concept. It means that many, many of our industries can be held ransom, held hostage, and be interrupted by one chain, one, you know, link in that chain, and the Chinese may be acquiring links in all industries. That's something we need to know about. Sorry.

HEARING CO-CHAIR DONNELLY: Oh, that's quite all right. If you guys are reading Barry Lynn, you're already too far gone.

COMMISSIONER WESSEL: I yield back the balance of my time.

HEARING CO-CHAIR DONNELLY: Are there any other commissioners who are unsatisfied?

[Laughter.]

HEARING CO-CHAIR DONNELLY: That seems an appropriate place to end. I thank the witnesses very much for their patience and for sticking with us through the course of the day, and we'll reconvene tomorrow, but for now, we're done.

Thank you.

[Whereupon, at 5:35 p.m., the hearing was recessed, to reconvene at 9:00 a.m., Friday, September 16, 2005.]